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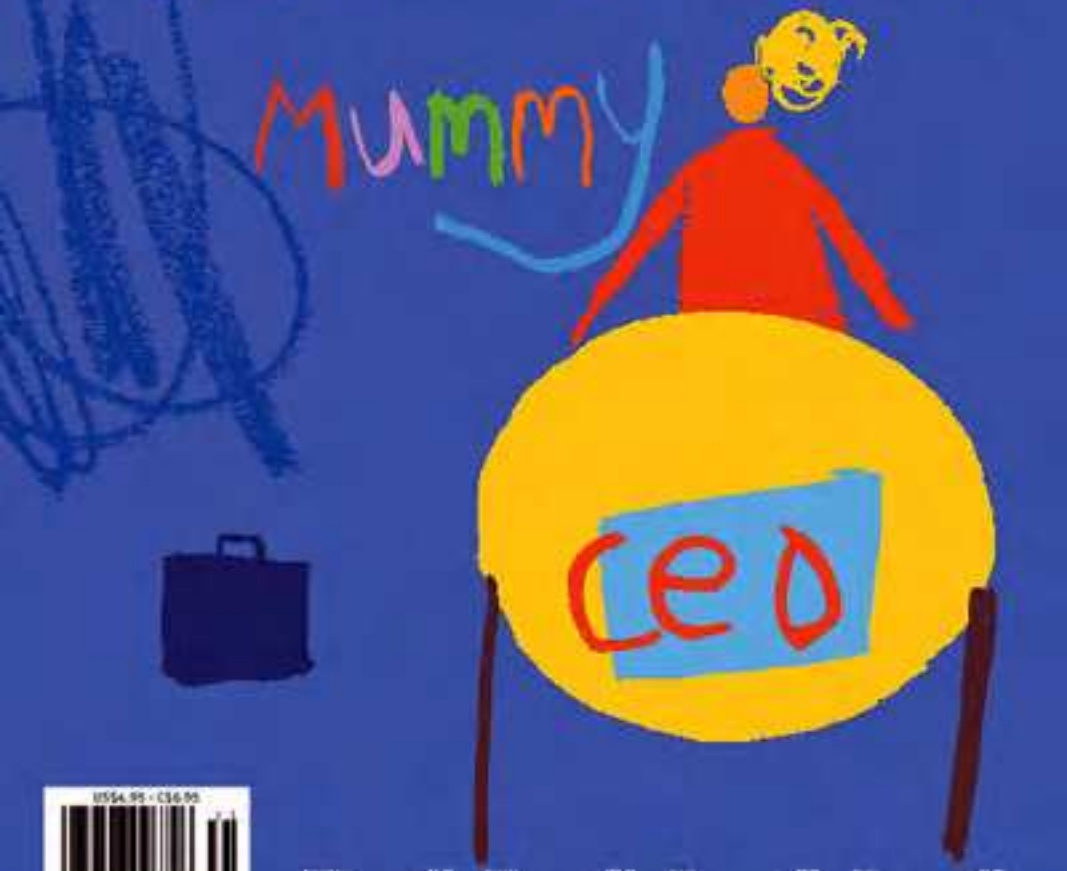

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Politics this week

Jul 21st 2005
From The Economist print edition

Welcome to the nuclear club

Reuters

George Bush agreed to let India buy civilian nuclear technology from America, even though it is now a declared owner of nuclear weapons. Anti-proliferationists were angry, but the deal comes with safeguards and improves relations between the two giant democracies. The announcement came during a visit by **India's** prime minister, Manmohan Singh, to Washington.

See article

At least five people were killed in a bomb explosion in Indian-administered **Kashmir**. India said that the terrorist infrastructure in Pakistan remained intact. Pakistan denied the claim.

Around 200 Islamic activists were detained in a series of raids across **Pakistan** days after news that at least two of the suicide-bombers in **London** on July 7th had visited Islamic centres in the country.

See article

Thailand's prime minister, Thaksin Shinawatra, declared Thailand's southern provinces an emergency zone in an attempt to quell a Muslim insurgency. The move gave him extraordinary powers to restrict civil liberties.

See article

Tests confirmed that three deaths in Indonesia were the country's first human victims of **bird flu**.

See article

China has increased the number of missiles it has trained on **Taiwan** to 730 from 500 over the past year, a Pentagon report stated. But the report also said that China's armed forces could neither mount an invasion of the island nor threaten the United States directly. China insisted its military development is purely peaceful.

See article

Delivering justice

George Bush nominated John Roberts, a conservative federal appeals-court judge and former Justice Department official, to the **Supreme Court**. Republicans welcomed the appointment. Democrats were more cautious, and said confirmation hearings would establish Judge Roberts's stance on a range of issues, most crucially abortion.

See article

Mr Bush raised the bar for dismissing White House staff (no names mentioned) who may be found to have revealed the name of **Valerie Plame**, a covert CIA officer, to the press in 2003. Mr Bush said anyone found to have “committed a crime” would be sacked. Last year, Mr Bush stated that anyone who merely leaked the name would go.

Eric Rudolph was sentenced to life imprisonment for **bombing an Alabama abortion clinic** in 1998,

which killed a police officer. Mr Rudolph made a plea-bargain deal that spared him the death penalty for separate sentences in four bombings, including the explosion at the 1996 Atlanta Olympics that killed one person and injured 100 others.

Happy couple

EPA

A glimpse of the future **European Union** leadership? On a visit to Paris, Angela Merkel, likely to be the next German chancellor, held a convivial press conference with Nicolas Sarkozy, France's ambitious interior minister, who hopes to be French president after 2007. The German Christian Democrat leader had a frostier meeting with Jacques Chirac, Mr Sarkozy's nominal boss.

Germany's highest court overturned the extradition of an al-Qaeda suspect, Mamoun Darkazanli, who is wanted in Spain on terrorism charges. The ruling means that the government must revise its law implementing the European Union arrest warrant.

See article

Terrorists in **Chechnya** set off a bomb that killed at least 14 people, most of them policemen, in the north-west of the Russian province.

A bomb placed on a tourist bus in the **Turkish** resort of Kusadasi killed five people. Kurdish separatists were suspected, but the PKK, the main Kurdish terrorist group, vehemently denied it had anything to do with the blast.

See article

Eight former secret policemen working for Slobodan Milosevic were jailed for the murder of a **former Serbian president**, Ivan Stambolic, who was killed in August 2000 for being a threat to Mr Milosevic's grip on power.

Shape up, or else

Venezuela's president, Hugo Chávez, threatened to nationalise 1,000 firms which he claimed were either idle or operating at a fraction of their capacity. Business groups blamed government price controls for the firms' difficulties.

Colombia's Supreme Court chose, as the country's new attorney-general, Mario Iguarán, who as the deputy justice minister co-authored a controversial law granting legal concessions to former paramilitary chiefs.

See article

In the latest twist to **Brazil's** corruption scandal, the former treasurer of the governing Workers' Party admitted that he had failed to declare $17m in campaign funds between 2002 and 2004.

After killing five people in Jamaica, **Hurricane Emily** battered Mexico's coast, damaging thousands of homes and leaving millions without power. Tourists were evacuated from Cancún and other resorts, and production was halted at offshore oil rigs.

No end in sight

Reuters

In one of the bloodiest weeks since American-led forces occupied **Iraq** in 2003, a spate of killings, many by suicide-bombers, left more than 200 Iraqis dead. In one incident alone, on July 16th, a petrol tanker blown up near a mosque killed at least 90 people in Musayib, a mainly Shia town 100km (60 miles) south of Baghdad. A declassified Pentagon report said only “a small number” of Iraqi forces were able to fight the insurgents without American help.

See article

Lebanon's prime minister-designate, Fouad Siniora, presented a list of proposed ministers, two-thirds of them members of an anti-Syrian alliance that won last month's election. But some key posts will go to Syrian protégés. A militant Iranian-backed Shia party, Hizbullah, will also have a government post.

Israeli security forces blocked thousands of Israeli supporters of the Jewish settlers due to be evicted from the Gaza strip by mid-August from marching there from the Israeli side of the border.

See article

Zimbabwe's president, Robert Mugabe, sent the governor of his country's central bank to South Africa to ask for loans reported to be worth $1 billion to pay for sorely needed fuel and food.

The UN said that 3.6m people in the south of **Niger** were suffering from malnutrition because of drought.

See article

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Business this week

Jul 21st 2005
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China's currency

China said it will stop pegging its currency to the **dollar** and tie it to a basket of currencies instead, in a highly managed float, thus revaluing the **yuan**. American politicians have exerted strong pressure on the Chinese to make such a move, but are likely to be disappointed by its small scale.

See article

Chevron sweetened its bid for **Unocal**, a rival oil company, to over $17 billion, an increase of around $400m. Unocal's board of directors recommended that its shareholders, who are meeting next month, accept the offer. **China National Offshore Oil Corporation** said its bid for Unocal, of $18.5 billion, was still superior.

Haier, a Chinese household-electronics firm, dropped its $1.3 billion offer (in conjunction with two private-equity groups) for **Maytag**, an American domestic-appliance manufacturer. Earlier, **Whirlpool**, Maytag's rival, made a bid worth $1.35 billion.

See article

Hewlett-Packard and **Kodak** both announced restructuring plans to cut costs. HP will lose around 10% of its staff, or 14,500 jobs, over the next 18 months and freeze pension and medical benefits. Kodak, which gave notice of 15,000 job losses at the start of 2004, said it would cut an additional 10,000 jobs to help quicken its move into digital products.

Yahoo! reported a 571% rise in second-quarter net profit, compared with a year ago, mostly due to selling shares in Google, its main rival, which netted $563m. However, Yahoo!'s shares fell by 10%: analysts grumbled that the results fell short of expectations for the internet portal.

See article

Más cerveza, por favor

SABMiller, a beermaker based in Britain, took a 72% stake in **Bavaria**, a Colombian brewer and South America's second-biggest, for around $7.8 billion (including debt). SAB follows InBev and Heineken in buying large beer concerns in the region to offset slower sales in Europe.

See article

News Corp agreed to pay $580m for **Intermix Media**, an internet company that owns several websites including MySpace.com, a popular teenage networking site. News Corp, owner of the Fox media businesses, is seeking ways to bolster its share of lucrative online advertising. The company formed a unit last week that will run its new and existing internet sites.

Two American carmakers reported poor second-quarter results. **General Motors** reported a net loss of $286m (it made a net profit of $1.4 billion for the same period in 2004). The company's North American operations lost $1.2 billion. **Ford's** net profit fell by 19%, to $946m, but its North American car business also fared badly, recording a pre-tax loss of some $1 billion. Both firms are reeling from a sharp fall in demand for large, petrol-guzzling cars.

Sovereign Asset Management, based in Dubai, sold its 14.8% investment in **SK Corp**, South Korea's biggest oil refiner, admitting defeat in its attempt to oust Chey Tae-won as SK's chairman for a 2003

conviction on an accounting-fraud charge. Mr Chey, who still controls the *chaebol*, has had his conviction upheld but was granted probation.

See article

Raffles Holdings, a Singaporean hotel group, sold its iconic 118-year-old Raffles Hotel, and 40 others, to **Colony Capital**, an American private-equity group with investments that include the Las Vegas Hilton and the Savoy Group in London. The deal is worth S$1.7 billion ($1 billion).

An all-Italian affair?

Unipol, an Italian insurer, launched a *euro*4.9 billion ($5.9 billion) offer for **Banca Nazionale del Lavoro.** The all-cash bid is slightly higher than **Banco Bilbao Vizcaya Argentaria's** all-share offer made in March. BBVA, a Spanish bank, has met stiff nationalistic resistance to its effort to take over the Italian institution.

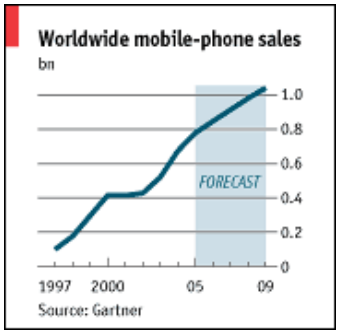
Britain's financial regulator, the **Financial Services Authority**, unveiled a plan to reform its enforcement procedures. The FSA was roundly criticised in January by an independent tribunal for the way it conducted its investigations. Proposals include sharply separating the people investigating cases from the committee that decides them.

See article

The World Trade Organisation opened an inquiry into allegations brought by the EU and America that accuse each other of illegally subsidising their premier aircraft-makers, **Airbus** and **Boeing**. Negotiations collapsed in May.

Handsets around the world

Gartner, an IT research group, forecast that one billion **mobile phones** a year will be sold in 2009, an increase of 33% on this year's estimated sales. Much of the growth will come from emerging markets due to the falling cost of handsets. India is set to overtake China as the second-biggest market (behind the United States) in 2009, accounting for 13% of global sales.



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Letters

Jul 21st 2005
From The Economist print edition

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An honourable justice?

SIR – You claim that Robert Bork is "one of conservative America's smartest jurists" and imply that the blocking of his appointment as Ronald Reagan's nominee to the Supreme Court in 1987 by Democrats was unfair ("The battle begins", July 9th). However, you failed to mention that Mr Bork was also a hatchet man for Richard Nixon during the Watergate investigation. In an incident known as the Saturday Night Massacre, two of Mr Bork's superiors resigned on principle rather than sack Archibald Cox, the special prosecutor looking into the case. But Mr Bork had no such qualms and dismissed Mr Cox. The term "Borking", which you use to describe the rejection of a president's Supreme Court nominee, was originally coined to refer to what happened to Mr Cox—getting rid of a man for doing his job. Mr Bork was no victim. A man of such questionable morality had no place on America's highest court.

Caren Panzer
Hilo, Hawaii

SIR – You assert that the Supreme Court "is the only branch of government that conservatives do not control" ("A hard seat to fill", July 9th). This statement, repeated often in the media, is simply not true. Seven of the nine current justices were appointed by Republican presidents. The fact that these justices occasionally rule on principles that today's Republican activists don't appreciate or wouldn't agree with is not the same as saying that conservatives don't control the Court.

Casius Pealer
Ann Arbor, Michigan

The future of offshoring

SIR – As you suggest, the sustainability of offshoring in services has recently become a significant issue ("Getting the measure of it", July 2nd). However, three factors will ultimately determine its long- term success. First, the range and sophistication of business processes that are sent offshore. Activities relocated to India are often portrayed as outsourced call-centre functions. This is a popular misconception. Our research indicates that IT is the cornerstone of offshoring. Staff employed in offshored IT outnumber call-centre staff by ten to one.

Second, labour skills, not volumes, are the key issue. To make offshoring sustainable, firms will have to invest more in management skills. Rather than hopping backwards and forwards on short visits, key management talent (and their families) will have to be relocated to lower-cost markets. And third, the pressure on costs in the West's markets looks set to increase. Services such as banking, insurance and telecoms are very mature. In some cases, the relocation of processing activities into emerging markets will go hand in hand with market-entry strategies. Manufacturing took 20 years to make its operations global. Services are just starting along this path and offshoring is likely to play a profound role in reshaping the operations of its businesses.

Chris Gentle
Deloitte, Director of research
London

Subsidies for aerospace

SIR – I read with great interest the letter from Washington state's governor, Christine Gregoire, stating that the $3.2 billion tax break passed to secure Boeing's 787 final-assembly plant wasn't actually for Boeing, but instead was for "500-1,000 aerospace manufacturing companies" (Letters, July 9th). Perhaps this also means that the taxpayer-funded employee-training centre the state promised Boeing to train workers in 787 technology isn't actually for Boeing either. To prove that no Boeing favouritism exists, Mrs Gregoire should invite Airbus to send its employees to the centre for training at the taxpayer's expense.

Of course she may first want to answer why the state's former economic development director, Robin Pollard, said that Washington was not interested in wooing Airbus. If the state really were interested in assisting the entire aerospace industry, and not just Boeing, it wouldn't have waited for threats of action from the World Trade Organisation before reaching out to Airbus.

Jason Mercier
Evergreen Freedom Foundation
Olympia, Washington

Spending what he hasn't got

SIR – One of the reasons why Hugo Chávez is coveting Venezuela's bumper foreign currency reserves is that his popularity is directly related to the growth of public spending ("Bank raid", July 2nd). By constantly raising expenditure to meet the demands of his biggest constituency, the poor, the incentive to constrain demand on the government to those items that are economically feasible has been severely weakened. It is for this reason that Mr Chávez is looking everywhere for any extra dollar he can find, even if it means "raiding" the country's central bank. Sooner or later, the combination of unlimited demand and physically constrained supply will become politically unbearable and result in either the revolution's disintegration or a totalitarian dictatorship that forces demand to conform to supply.

Pedro Rodriguez
Caracas

A fundamental argument

SIR – You discuss the rise of the Christian right in the United States and the success of an overtly religious party, headed by an evangelical, in the 2004 elections ("You ain't seen nothing yet", June 25th). I was most interested in the categories you used to describe the Christian factions: "traditionalist evangelical Protestant"; "harder outfits like the Southern Baptists"; "white evangelicals who see the Bible as the literal truth"; and "traditionalist Catholics". However, you carefully avoided the "f" word—the more familiar term "fundamentalist"—in your descriptions. At what point, if ever, do these rightist Christian factions become fundamentalists, or is that a pejorative term reserved exclusively for Muslims and, occasionally, Hindus?

Mohammed Azim
Abu Dhabi

SIR – I am a Christian who votes Democrat because I feel the party's policies more closely embody the values that Jesus upheld, such as defending the poor and using diplomacy and wisdom instead of military aggression. If Christians outside the Republican Party are given room to express alternative views in politics, many on the left who view them as political enemies may find that they are able to unite with them on more issues than they expected. Their combined efforts could even draw others from the right who are dissatisfied with the Republicans but who have no wish to cast an "anti-Christian" vote.

Sarah McIntyre
London

SIR – As a non-religious American, I find myself agreeing with the so-called "religious right" more often than not. They take the side of life and compassion in the abortion debate, respect the role of state legislatures and shun the role of unelected judges in the gay marriage debate, and support strict constructionist judicial appointees who respect the letter of the constitution, not the winds of popularity. These are values that religious people share—but they hold similar appeal to those of us who prefer to sleep late on Sundays.

Jeff Baird
Oxford, Ohio

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Women in business

Helping women get to the top

Jul 21st 2005
From The Economist print edition

How to get more females into senior corporate jobs

WOMEN account for almost half the workforce in western countries, and the lower ranks of many big companies reflect that ratio. But at the top of the corporate ladder it is a different story. For every ten men in the executive suite there is one woman, a ratio that has changed little since the term “the glass ceiling” was coined two decades ago to describe the barrier that allows women to see the top of the corporate ladder, but seems to stop them from reaching it. Despite much discussion, and efforts by both women's and business groups to break that barrier down, the world's biggest companies are still almost exclusively run by men (see article).

Yet, at the same time, a growing number of those companies have become convinced that it makes good business sense to have more women in their executive suite. Hard-nosed male bastions such as ABB, BP and General Electric have renewed their efforts to help women reach the higher levels, not out of any sense of corporate social responsibility but because they genuinely believe that it is good for their profits. Research from America, Britain and Scandinavia supports their view, showing a strong correlation between shareholder returns and the proportion of women in the higher executive echelons. While this does not establish a causal relationship, it does suggest that a corporate culture which fosters women's careers can also foster profitability.

Many firms are worried about the coming demographic squeeze that threatens to reduce the supply of qualified men. A few think that women have a unique contribution to make in running modern firms. They are often better at team-building and communications, for example, an advantage in a corporate world that is today increasingly characterised more by informal networks than by ordered cohorts.

IBM is convinced that it ran into trouble in the early 1990s partly because its blue-suited, like-minded top male executives failed to see the implications of changes in the computer industry. It has sought to diversify its workforce at all levels ever since, and promoting women has been a big part of this effort. Diverse groups are acknowledged to be better at spotting threats coming from unlikely directions. Some of the most enthusiastic promoters of women—Hewlett-Packard and Alcan, as well as IBM—have had considerable success in achieving this in a relatively short period of time. But the vast majority of firms have not. What can they do?

The myth of dropping out

One popular belief is that women are choosing to hop off the big corporate career ladders as they approach the higher rungs, a region where operational excellence becomes less important than political skill and sharp elbows. Away from work for a while—to have children or (increasingly) to act as carers for other family members—they realise that they can live happily on one salary, their partner's. This may be true of some, but it is implausible to believe that all, or even most, career-minded women feel this way. Given the chance, many would be just as ambitious to do top jobs as men.

However, too many are not getting that chance. The lure of dropping out may have less to do with the shortage of women at the top than the policies of the firms they work for. Because women bear children, many seek to take more time off work in mid-career than men, but many firms remain intolerant of absence. Time-serving still counts in career advancement. A study of American graduate managers found that women returning after a break of three years or more lost on average 37% of their earning power.

The true challenge of re-entry

So the first place that companies should look if they want to bring more women to the top is the point of re-entry. They should keep in contact with women who leave for a while, perhaps assigning them part-time projects while they are off the payroll. They should also offer retraining to help bring women at least back to the level they were at when they left, much as many already do for returning expatriates. At the same time, women who want to stay on the career ladder are themselves under some obligation to keep in touch with their previous employer and to keep up-to-date with the skills they need to make a smooth re-entry. They need to be realistic in their expectations too. An absence of several years is bound to make some difference to their career trajectory.

Then, once women have re-entered the workforce, there are a number of things that companies can do to help keep them there. Women with dependants at home need to pay others to take over while they are at work. Just as expatriates receive allowances (eg, for their children's education) because of their special circumstances, so executive women who are employees in the workplace and carers at home might be granted such allowances for their special circumstances.

More flexible working hours are also helpful. Many women are happy to work at home after they have put their children to bed. But they like to leave the office to collect their children from school in the late afternoon. This should no longer be an insurmountable obstacle. Many management tasks have been freed of time and geography by electronic technology. Firms keen to keep women on their payroll need to send out the message that employees will not be penalised if their car is not in the executive car park after 6pm, nor will they be rewarded for sporting air-miles like battle scars.

As a matter of fairness, flexible arrangements or special allowances should also be offered to men who shoulder the burdens of being the primary carer at home. But, for now, such men are still few and far between, at least in most big companies. Women are the ones who need to be accommodated by new types of career paths. The men who currently occupy positions at the top have to learn that female executives are not just men in skirts and trouser suits. It is now clear that women will not rise to the top of the corporate ladder by a simple process of osmosis once there are enough of them at the bottom. They have different needs in the workplace. Only when men understand this will women join them at the top.

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Myanmar

How to save it

Jul 21st 2005
From The Economist print edition

Ostracising Myanmar has not helped its people. It is time to explore the possibility of a deal

Get article background

THE West's policy on Myanmar isn't working. It is now 17 years since the generals massacred demonstrators in their thousands, and 15 since they lost an election and promptly ignored the result. For much of that time, Aung San Suu Kyi, the heroic and inspiring leader of Myanmar's democracy movement, has enjoyed the dubious distinction of being the only Nobel laureate to be under arrest. Myanmar's "government" is among the world's most incompetent, its people among Asia's poorest, its record on human rights at the bottom of the pile. Sanctions, ostracism and tough talking have clearly all failed to make the slightest dent in the regime's behaviour. Miss Suu Kyi, who was beaten up in 2003, remains under house arrest. It is said that the top general, Than Shwe, cuts meetings short at the very mention of her name.

But the East's policy on Myanmar isn't working either. Instead of ostracism, it has tried engagement, and in spades: investment in Myanmar's energy sector, admission to the Association of South-East Asian Nations (ASEAN), the premier regional club, regular dialogue on everything from trade to cultural exchanges. None of this, either, has wrung the slightest concession out of the generals—and while China, for one, may not mind too much about this, others, such as India and Indonesia, do. When ASEAN's leaders gather in Laos this week, the embarrassments of its own approach will be clear. Myanmar is due to take over the rotating chairmanship of the organisation at the end of this year, which will expose it to international ridicule and boycott unless the other members succeed in twisting the generals' arms hard enough to make them yield the honour. So far, the arm-twisting has failed (see article).

One problem with both approaches is that the two tend to cancel each other out. Western sanctions can hardly be expected to succeed if big eastern countries simply ignore them. (Not even Europe and America follow exactly the same tactics: America bans all financial transactions with Myanmar, but European banks continue to provide an economic lifeline.) Engagement is hampered if Myanmar continues to be seen as a pariah. But a more fundamental problem is that no one really takes Myanmar seriously enough. Most countries, whatever their attitude toward the regime, treat Myanmar as a backwater rather than a pressing strategic concern. That is a mistake. For one thing, Myanmar is the world's second-largest producer of heroin. It cheerfully exports drugs, refugees and disease to its neighbours and beyond. Its many rebellions regularly spill into Thailand, India and Bangladesh. It hosts China's only military base on the Indian Ocean, and so plays a crucial part in the growing rivalry

between Asia's two rising powers. It has big reserves of natural gas, which it already sells to Thailand and plans to market further afield.

The world needs to recognise that there is little hope of influencing the regime unless a more coherent policy can be found, even if that has to mean easing up on the generals in some limited respects. As a start, Europe and America should at least co-operate with one another. They might also try harder to persuade their allies in Asia that a better-run Myanmar is in everyone's interests. The United Nations should also play a more active part. At the moment, it is reduced to begging the regime to admit its special envoy, who is supposed to be “facilitating” a non-existent dialogue between the generals and the NLD opposition movement. But the real achievement would be to marry the western and eastern approaches. Just as ASEAN should not hesitate to punish the generals, the rest of the world should not shrink away from rewarding them for any positive steps they take. At the moment, countries like America insist that they will not reduce pressure on Myanmar until the junta gives way to a democratic government.

Hold your noses and state your terms

That should always be the ultimate goal, of course—and not one that can be postponed indefinitely. But it would not hurt to spell out exactly what steps outsiders would like the generals to take, how quickly they should be taken, and what the consequences of each stage of compliance or defiance would be. For example, foreigners might agree to restore full diplomatic relations if the junta released Miss Suu Kyi. Next, they could trade a big infusion of aid for, say, an effective ceasefire in various war-torn corners of the country. Then they could offer to drop sanctions, should the junta ever cut some sort of a power-sharing deal with its opponents. Diehard opponents of the regime will complain that any concessions simply reward the generals for their intransigence, and give them an incentive to haggle over every step down the road to reform. But the alternative, an insistence on the regime's unconditional surrender, has got them precisely nowhere over the past 15 years. None of these steps would be irreversible, and there would be plenty of other penalties foreign governments could impose if the generals regressed.

Even Miss Suu Kyi herself has already conceded that an absolutist approach is not practical. She has negotiated personally with the generals, while her colleagues in the NLD hint that they might accept all manner of compromises if they felt it was in the best interest of ordinary Burmese. And there is no doubt that ordinary Burmese have an interest in improving the government's disastrous economic management, checking the alarming spread of AIDS and putting an end to Myanmar's endless guerrilla wars, in addition to political reforms.

It is possible that the generals might ignore any overtures, no matter how generous. Some close observers of Myanmar predict that this is the most likely outcome. One school of thought holds that its generals are indifferent to both carrots and sticks. The junta is steeped in the isolationist philosophy of Ne Win, Burma's strongman from 1962 to 1988. It is so paranoid that it is digging an underground headquarters in a remote region of central Myanmar, for fear that rebels or outside invaders might somehow seize control of the capital, Yangon. Maybe a step-by-step plan, implying a degree of cautious engagement in return for real reform can do better. It is worth trying—but only provided the generals are willing to play ball.

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India and America

Now we are six

Jul 21st 2005
From The Economist print edition

A good week for great-power politics, but a less good one for nuclear proliferation

Reuters

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HAS America just destroyed the non-proliferation treaty (NPT), set up in 1968 to halt the spread of nuclear weapons? There were some grounds for fearing so this week, after India's prime minister, Manmohan Singh, was lavishly entertained in Washington. In return for agreeing to a "global partnership" with America, he has walked off with a cherished prize, access to American civilian nuclear know-how, and to nuclear fuel, despite the fact that India has been a declared holder of nuclear weapons since 1998.

India is not a signatory to the NPT, and is not bound by its provisions, which restrict the right to possess nuclear weapons to the five original nuclear powers (America, Russia, Britain, France and China), and impose extensive safeguards on the civilian nuclear programmes of other member states. But even so, it has always been a tenet of American foreign policy, enshrined in law, that only countries that are NPT members should share in the benefits of American civilian nuclear expertise. Being able to buy American reactor components and fuel rods was supposed to be a specific reward for renouncing nuclear weapons, not a favour to be handed out at will.

Just because America has decided that it needs India as an ally these days, to use as a counterweight to China, is no reason for it to waive its own rules. The danger now is that other friendly countries that have considered acquiring nuclear weapons, but decided not to do so because help with their civilian programmes was judged to matter more, might think that they too can have it both ways. Another danger is that non-nuclear countries will have more reason than before to see the NPT as a charade which lets the powerful hold on to their own nukes and allows their friends to acquire them, while excluding everyone else.

On close inspection, though, the deal is not quite as bad as it might have been. India did not get the biggest thing it wanted, formal recognition by America as a fully legitimate nuclear power, alongside the existing five. And it has accepted what looks like a stringent set of safeguards and restrictions. It has agreed to inspections by the International Atomic Energy Agency, to separate rigorously its civilian and military nuclear programmes, to sign up to various regimes strictly prohibiting the export of weapons systems or components, and to a moratorium on nuclear testing—though not, as ought to have been part of the deal, to sign the Comprehensive Test Ban Treaty. And it is at least arguable that India,

because of its size, influence and new-found closeness to America, will not, in reality, set a precedent for other would-be nuclear powers.

On balance, all the same, it does seem that America's eagerness to cement a better relationship with India has led it to damage the effort to contain the spread of nuclear weapons. One source of consolation is that the other side of the balance looks better (see article). A much closer relationship between the world's largest and most potent democracies is a huge good: consider an alternative prospect, that of India and China teaming up in rivalry to America, to see why. Regional security, the struggle against terrorism and AIDS, the promotion of democratic values, and efficient co-operation in the services sector are among the many ways in which both countries, and the world, stand to gain. Still, India might better have been offered something it values even more highly than nuclear help, and deserves far better: American support for its quest to win a permanent seat on the UN Security Council.

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Terrorism and Iraq

Baghdad's bombs, and London's

Jul 21st 2005
From The Economist print edition

There may be a link. But so what?

AP

TWO weeks to the day after the London bombings, the capital faced another scare, prompting the evacuation of underground trains amid reports of a new attack. By and large, however, Britain has reacted in an exemplary way to the London bombings. Commuters remain stoical, the government has taken pains not to blame Muslims at large, and the Muslim leaders summoned this week to a Downing Street summit with Tony Blair declared afterwards that no grievance should ever be used to justify the murder of fellow citizens. For all that, a debate now swirls around the part that Mr Blair's decision to take Britain to war in Iraq may or may not have played in the bombing. It was payback, say some. Nonsense, says the prime minister: the real blame lies with an “evil ideology” that existed well before the Iraq war.

Who is right? It is absurd to deny even the possibility of a connection with Iraq. The invasion could well have been the trigger that turned four British Muslims into suicide-bombers. Before the bombing, the view of Britain's intelligence services, as leaked to the *New York Times*, was that “events in Iraq are continuing to act as motivation and a focus of a range of terrorist-related activity in the United Kingdom.” Mr Blair himself has talked often of the need to tackle the causes of terrorism—including Israel's occupation of the West Bank and Gaza. Why should the much bloodier American and British occupation of Iraq be deemed by Muslims, especially those already susceptible to the “evil ideology” of Osama bin Laden, to be less of a cause? Nobody who has set foot in the Muslim world these past two years can be in any doubt that the war has inflamed Muslim anger, especially against America and Britain, and so added to the pool of people willing to be martyrs to al-Qaeda's cause.

Mr Blair's blank refusal to acknowledge a possible link to Iraq is wrong. But so what if there was one? Those who would go on to conclude that the right course of action in the light of the bombings is for western countries to flee Iraq are in danger of making a very much bigger mistake. This is not only because of the need to defend the principle that the foreign policy of democracies should be made by representative governments, not by disaffected young men bent on murder. It is also because, whatever reasons America and Britain had for invading Iraq in 2003, they now have a moral obligation not to abandon its people to mayhem. Besides, fleeing the terrorists is not even likely to advance the West's own safety. All the evidence since the emergence of al-Qaeda in the 1990s, its declaration of *jihad* against “Jews and Crusaders”, and the attacks in East Africa, New York, Washington, Bali, Madrid and elsewhere, suggests that “victory” in Iraq would merely encourage the terrorists to pursue the defeated infidels home.

A just cause. Now show that you mean to win

In much of the world, the notion that America and its allies have a just cause in Iraq has been contaminated by two main things. They are the “sexing up” of the case for war before the invasion, most notoriously by exaggerating what intelligence services knew about Saddam Hussein's weapons of mass destruction, and the mismanagement of the occupation afterwards. But even those (unlike *The Economist*) who take the view that the war was conceived in sin owe it to Iraqis to look at where things stand now. Dwelling over the errors of the past is no substitute for clear-eyed analysis of the present.

At present, the aim of the American and British forces in Iraq is to help an elected government, recognised by the United Nations, establish order while it drafts a democratic constitution that will in turn be put to the popular vote in a referendum. This government is being opposed by an insurgency comprising two main elements: foreign *jihadis* who reject the idea of democracy because they believe law can come only from God, and the domestic Sunni minority that ran the show under the previous dictatorship but now fears losing power to Iraq's Shia majority. The main weapon of these insurgents is terrorism in its most ghastly form: the indiscriminate slaughter of civilians. It is sobering to reflect that in the period when London has mourned its 52 dead, another 200 Iraqis have been killed by suicide-bombers (see article).

In a fight such as this, it should not be hard to choose which side to be on. And to the credit of the majority of Americans and Britons, calls for leaving Iraq to its fate have remained muted even after the London attacks. If there is a threat to their staying power, it may not be terrorism at home but a growing doubt about whether the war is winnable.

This is the worry that George Bush and Mr Blair need urgently to address—but not by pretending, as Mr Bush often does, that everything is proceeding sweetly to plan. The plain facts are that Iraq's new government is weak, its police and army will take years to train effectively and American forces in Iraq are stretched too thin. Winning will require harder work: a clearer strategy for dividing the *jihadis* from the mainstream Sunnis, patient support for the elected government and a willingness to devote more troops, not fewer, to a mission on whose outcome the long-term security of peoples well beyond Iraq itself has come increasingly to depend.

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Content regulation

An indecent proposal

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America's lawmakers should scrap, not extend, rules restricting "indecency" on television

"WE FIND that the fleeting uses of the words 'penis', 'vaginal', 'ass', 'bastard' and 'bitch', uttered in the context of the programs cited in the complaints, do not render the material patently offensive under contemporary community standards for the broadcast medium." Making decisions like this is one of the more thankless tasks of America's media regulator, the Federal Communications Commission. Since 1927 the FCC has tried to protect children from "indecency"—sexual content and swear words—on broadcast television and radio.

Under pressure from social conservatives, America's politicians are now threatening to extend indecency regulation further. If they get their way, not just broadcast television and radio but cable and satellite TV, and possibly satellite radio, would be monitored by the FCC for indecency. America's media firms have been shaken by this threat (see article).

Every society, of course, has the right to protect children from adult material. But increasing censorship by the central government is the wrong way to go about this. A wiser course would be to eliminate the government's role and rely more on parents. Fortunately, changes in technology and the media industry itself now make this approach more feasible than ever.

Television has changed beyond recognition since indecency rules were first imposed. In 1978 the Supreme Court upheld the FCC's right to punish indecency on the grounds that broadcasters had what it called a "uniquely pervasive presence in the lives of all Americans." Back then, that was a plausible argument. But with television fragmenting into so many outlets such unique pervasiveness no longer prevails. Over four-fifths of American households, for instance, subscribe to cable or satellite television. They are just as likely to be watching one of the hundreds of cable channels they have at home as one of the main six broadcast networks. With so much choice, avoiding the indecent is easier than it was 30 years ago when most people had only three channels.

At the same time, new technology now allows families to filter the television they receive. Cable and satellite TV come with set-top boxes that can screen out individual channels. Digital cable set-top boxes are particularly precise, and allow parents to block individual programmes at the touch of a button on their remote control. Every new television set sold in America since 2000 is equipped with a "V-chip", a blocking device that Bill Clinton forced on the media industry in 1996. It is only thanks to the V-chip and set-top boxes, in fact, that children get any protection from violence, since the FCC regulates only sex

and bad language. America is the only country where blocking technology is already in the vast majority of homes, thanks to the ubiquity of pay television. But it is likely soon to be available elsewhere as well.

Couch potatoes

Many parents in America are either ignorant of the tools at their disposal or too busy or lazy to use them. But that is not a good enough reason to prolong the government's role. If parents are truly worried about their kids and TV, they will make more use of the technology in future. As a whole, Americans believe that responsibility lies with parents. The Pew Research Center reported in March that 86% of the people it surveyed said that parents are most responsible for screening kids from sex and violence, and just 4% named the federal government.

That is not to say that the media industry should not do more to help parents protect their children. Media executives admit that they could do a better job of labelling programmes. It was only a few months ago that NBC, a broadcast network owned by General Electric, finally agreed to give its audience the full range of content ratings that the rest of the industry uses. But America's entertainment industry is now wide awake to the fact that, if it does not do everything it can to make the system work, it may face more direct regulation. In response, cable television firms have promised to spend $250m on ads to remind people that they have the tools to filter content themselves. Their other priority should be to ensure that their labelling system is reliable and consistent.

There is one strong argument against scrapping indecency regulation for television. Kids not lucky enough to have responsible parents might end up being exposed to more adult sex and profanity. But people should weigh the risk of that outcome against the harm of allowing each incoming administration to decide what everyone can and cannot watch. The current government has shown that it can easily broaden the country's definition of what is indecent. Under pressure from Congress, the FCC has cracked down and has overruled its own precedents. What might future governments do? Technology has offered the chance to scale back censorship and America, long a champion of free speech, should seize it.

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Teenage behaviour

Pretend money

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Bribes and fines in fake money won't work

PARENTS try it often: more pocket money for good behaviour, less for bad. Now the British government wants to introduce a similar scheme for the nation's teenagers. From 2008, it proposes that everyone aged between 13 and 19 should have an Opportunity Card, loaded with £12 ($21) worth of credits. Those from poor backgrounds and engaged in useful activity (such as voluntary work, or attending school regularly) will get more credits, perhaps another £12 per month. Those who misbehave (through truancy, vandalism and the like) will get fewer, or none. The credits will be redeemable for sessions at sports centres, dancing lessons and other worthy pastimes.

This is a prime example of the government's favourite approach to public policy: interventionist, but delivered through a market mechanism. It sounds tempting, benefiting both the participants and, by keeping them out of trouble, everyone else too. The government cites academic research that shows a correlation between inactivity and misbehaviour. Healthy hobbies such as sport, art and music, by contrast, give young people a sense of purpose.

But there are flaws. If the incentive for good deeds mutates into a mere “payment”, it risks blunting goodwill. To link so tightly doing good to immediate material reward can end up corroding community spirit. As many parents find out, a child paid for being tidy soon learns to expect to be paid for other things, too. And bribing young people into education seems odd. Attending classes should be desirable for its own sake (and millions of young people in poorer countries than Britain make big sacrifices in order to do so). If British education is so unattractive then perhaps the supply side, rather than the demand, needs attention.

Even if you think good can come of incentives, a system of credits is not the way to reward people. The credits will be easy to create and hard to control. The scheme is supposed to be decentralised—giving lots of local authorities and other government agencies the right to issue what will seem like costless cash. That can lead to inflation and ballooning liabilities.

Worse, the scheme offers limitless scope for government meddling in private lives: will card-holders be allowed to spend their credits on tooth-rotting fizzy drinks, or sweets, or biscuits? Or just certain categories of government-approved food? On all sorts of computer-games and DVDs, or just wholesome ones? It is easy to imagine the scheme being extended to all the population: the health service could give patients extra credits for keeping fit, or stopping smoking; parents could get credits for reading to

their children. The police could issue them in exchange for tip-offs. The mind boggles.

Quasi-currencies are invariably inferior to the real thing. The point about money in a free economy is that it confers freedom on the owner: he can use it how he likes, when he likes. There is no expiry date, no list of approved retailers, no restrictions on transferring it.

The planned credits on the new card, by contrast, are not freely spendable. They are under the control of an arbitrary outside power. They resemble, in fact, the pernicious system of “truck” abolished in Britain in the 19th century, in which factory owners paid their workers in tokens, redeemable only for an overpriced selection of goods on sale at a company shop. The labour movement rightly despised that. It is odd that a Labour government should be introducing a similar scheme for young people.

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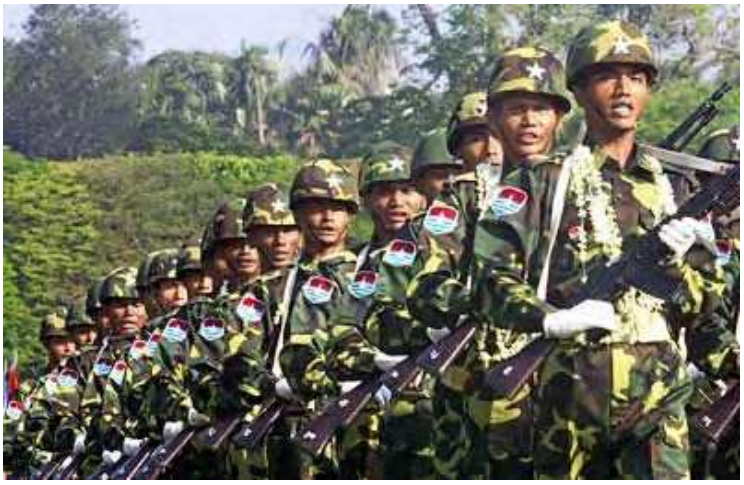
Myanmar

The mess that the army has made

Jul 21st 2005 | YANGON
From The Economist print edition

AFP



Brutality and neglect by Myanmar's military regime have created a pariah state with a wretched and desperate people

Get article background

FOR proof of how grim things have become in Myanmar, consider how locals talk about America's invasion of Iraq. There is no griping about violations of Iraqi sovereignty, no carping about the mysterious absence of weapons of mass destruction, no horror at the bloodthirsty insurgency that has ensued. Only one criticism is ever voiced: why hasn't America invaded Myanmar too? A monk, a taxi driver, a student, all shyly ask your correspondent whether America might not be prevailed upon to topple their dictatorial regime next. The country is stuck in such a rut that the prospect of a foreign invasion is a fond hope, not a fear.

It is against this backdrop of military misrule that the Association of South-East Asian Nations meets next week in Laos to decide what to do about Myanmar's impending chairmanship of the regional club. On the one hand, ASEAN is first and foremost an economic grouping, which does not normally concern itself with the political conduct of its members. Several other members, including Laos, the summit host, are hardly models of democracy. On the other hand, it would be enormously embarrassing for Myanmar's internationally reviled and economically illiterate generals to represent South-East Asia to the world. America, which has denounced Myanmar as an “outpost of tyranny”, has said that it will stay away from any events hosted by the military regime.

So the other members of ASEAN have been hoping that Myanmar might find some face-saving excuse to pass up on its turn to hold the group's rotating chairmanship. Indeed, Major-General Nyan Win, the country's foreign minister, may still announce as much in the next few days. After all, whenever pesky United Nations envoys or human-rights investigators ask to visit Myanmar, the top brass simply declare that they cannot find any time in their busy schedules.

But Myanmar's generals also have a strong sense of their own dignity, and might be worried that caving in to ASEAN would be seen as weakness. What is more, excluding Myanmar from the chairmanship would run counter to ASEAN's own argument that it is better to engage the military regime than to ostracise it. Whatever is decided, the process will be closely watched and fiercely disputed by partisans in the never-ending debate over whether the generals respond better to carrots or to sticks.

In a sense, the argument is moot. Whichever decision ASEAN comes to, nobody imagines that the generals will behave much better as a result, let alone undergo a sudden conversion to democracy. Indeed, the junta looks more entrenched than at any point in the 17 years since it took power. Its internal and external critics do not seem to be making any headway. In the meantime, the life of ordinary Burmese is becoming ever more miserable.

The army has ruled Myanmar since 1962. In 1988, a popular uprising led by disgruntled monks and students prompted a group of generals to sideline the long-serving strongman, Ne Win, and call elections. But when these were held, in 1990, the junta refused to honour the result, a landslide win for the National League for Democracy (NLD) led by Aung San Suu Kyi. Instead, the generals simply locked up their political opponents and continued to run the country as a military dictatorship.

Since then, the NLD has been in a quandary. The State Peace and Development Council (SPDC), as the junta calls itself, still claims to be committed to an eventual transition to democracy. It has conducted desultory consultations over a new constitution, and even held periodic negotiations with Miss Suu Kyi, who has won international acclaim, and a Nobel Peace Prize, for her peaceful, patient and dignified resistance—but precious little else. Most of the time the junta has kept her under house arrest, while political repression and economic hardship have gone from bad to worse.

In 2003, the SPDC unveiled a seven-point “road map” to democracy. But the road, predictably, is long and winding. The first item on the junta's agenda is the completion of the new constitution. It duly assembled a “National Convention”, heavily stacked with pro-regime delegates, to take up where the previous such body had left off. There would be no going back, the generals said, on clauses in the draft document reserving a quarter of seats in the national parliament, and a third of seats in regional parliaments, for the army.

Nor would the clause barring Miss Suu Kyi from the presidency be revoked. (The official reason for the ban is that she was married to a foreign national: her British husband, Michael Aris, died in 1999.) Miss Suu Kyi is being kept under house arrest during the convention, and this prompted the few NLD members who had been invited to the convention to boycott it.

The opposition's open mind

The NLD says it is willing to be flexible if the generals would only agree to negotiate. There is talk of ending the party's support for international sanctions and calling for more foreign investment and tourism. A prominent role for the army in politics is not out of the question, says Bo Hla Tint of the opposition's government-in-exile. But previous attempts at negotiation have not ended happily.

In 2002 the junta released Miss Suu Kyi from one of her many stints under house arrest, and announced that it would pursue talks “facilitated” by the UN. Miss Suu Kyi began touring the country, in a bid to rebuild the NLD and hearten her supporters. Huge, enthusiastic crowds greeted her everywhere, despite much official intimidation. The generals, doubtless alarmed by her popularity, locked her up again in May 2003 and called off the talks.

Since then, the government has closed all the NLD's offices save its tiny and dilapidated headquarters in the capital, Yangon. Although some long-jailed dissidents have recently been released, younger activists are still frequently arrested. More than 1,000 political prisoners, including many NLD supporters, remain behind bars. Miss Suu Kyi herself is held in “virtual solitary confinement” according to the UN. No one but her doctor and two maids are allowed into her house, and she has no access to a telephone, correspondence, newspapers or the internet. The other, elderly leaders of the NLD, deprived of contact with Miss Suu Kyi and harassed by the authorities, look somewhat at sea.

Observers believe that the junta is busily undermining the party in preparation for elections to be held some time after the constitution is completed next year. In this scenario, the generals' despised civilian fan club, the Union Solidarity and Development Association, would transform itself into a political party. The electoral rules would then be written, and the vote rigged, to guarantee its victory. With a constitution that granted it sweeping powers, and a compliant parliament, the army could then preside over a sort of Potemkin democracy.

The junta seems to have equally unreasonable plans in store for the ethnic minorities who make up 40% of Myanmar's population, and who dominate the country's border regions. Numerous ethnically based rebel outfits have fought against the central government on and off since independence in 1948. Over the past decade or so, the regime has managed to arrange uneasy ceasefires with 17 of them, leaving only a few more still fighting. Now it says that the 17 ceasefire groups should disarm, and pursue their

goals through the political process outlined in the road map.

Most of the groups view this as a trap. The architect of the truces, Khin Nyunt, a former number three in the SPDC, fell from grace last year and is currently on trial for corruption. Representatives of the ethnic militias are still participating in the National Convention, but the junta has ignored most of their suggestions. Any hint of federalism seems out of the question, as does a rejigging of provincial boundaries or administrative hierarchies to give disgruntled minorities more autonomy.

Indeed, the junta recently signalled its intransigence by arresting the leader of one ceasefire group, the Shan State National Army (SSNA), along with various other politicians from Myanmar's biggest ethnic minority, the Shan. It seems to be gambling that most of the groups that agreed to a ceasefire will not dare to go back to war. After all, the ranks of the army have more than doubled since 1988, to roughly 380,000. The revenue from gas exports has allowed the regime to upgrade its weapons, while improved relations with India and Thailand have removed the rebels' past sources of arms and sanctuary.

But the junta's bet could yet sour. Only one small group has surrendered its weapons. Others, especially the United Wa State Army (UWSA), remain well armed thanks to revenues from drug trafficking. The SSNA, for one, broke with the regime after the arrest of its leader, and merged with another rebel outfit. The ensuing upsurge in fighting in Shan State has displaced as many as 200,000 civilians, according to human-rights groups. Were the regime to pick a fight with the UWSA, the fallout would be even worse.

Nonetheless, all the signs indicate that the top brass is determined to press on with its plans, even in the face of fierce resistance. It was Mr Khin Nyunt, the general who was purged last year along with all of his allies in government, who made the greatest effort to cultivate friends and placate detractors. Since his departure, the junta has abruptly ended overtures to critics such as Amnesty International and the International Labour Organisation. It has not allowed either the UN's special envoy or its point man on human rights in Myanmar to visit in over a year.

Instead, it appears to be digging in, literally: the army is shifting its headquarters to a series of underground bunkers in a town called Pyinmana, in a remote, hilly region of central Myanmar. The rest of the government may follow, in what looks like a crude attempt to protect the authorities against future invasions or uprisings. Many members of the opposition take the move to Pyinmana as proof that only foreign pressure will help to rein in the SPDC.

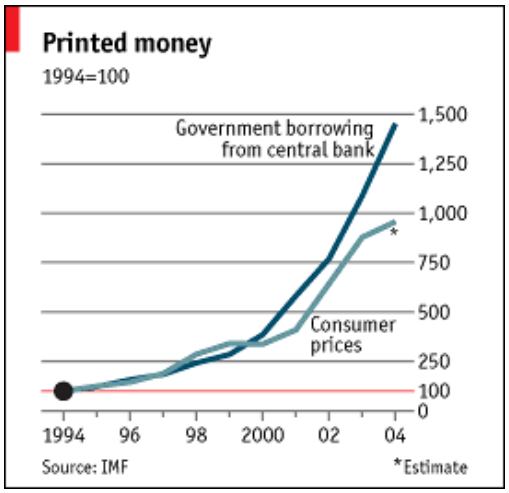
But, if anything, foreign pressure is decreasing. America did ban imports from, and financial transactions with, Myanmar in 2003. But the European Union is toying with greater engagement. Last year, for example, it permitted Burmese officials to attend its annual summit with ASEAN for the first time. Both America and the European Union have resisted activists' demands that they ban all investment in Myanmar, allowing both Unocal and Total, two big oil firms, to continue to operate there. Japan, which

suspended its aid programme after Miss Suu Kyi's arrest in 2003, has resumed it again.

Friends and neighbours

Myanmar's neighbours, meanwhile, have become much friendlier in recent years. Under the leadership of Thaksin Shinawatra, Thailand has buttered up the generals in the hope of stemming the flood of methamphetamines across the two countries' long border. (Mr Thaksin's family also has business interests in Myanmar.) China, never the fiercest proponent of democracy, has taken advantage of good relations with the junta to establish its only toehold on the Indian Ocean, in the form of a military surveillance station in the Coco Islands. Myanmar's friendship with China has also prompted an anxious Indian government to cosy up to the generals. In January, it signed a deal to build a pipeline across Bangladesh to import Burmese gas. With so many close friends in the region, western sanctions and boycotts carry relatively little sting.

In fact, the worst damage to Myanmar's economy is wrought by the generals themselves. Sean Turnell, of Australia's Macquarie University, points out that they grew up under a socialist regime, and have little understanding of market forces. They meddle in everything, change regulations, and issue or revoke licences and permits at whim. They fund big budget deficits by printing money (or “borrowing” it from the central bank, as official statistics have it), a policy that has provoked double-digit inflation (see chart).



In 2003, they refused to take any action to prevent a run on the nation's banks. They operate an absurd system of at least three exchange rates, with all the concomitant inefficiencies and opportunities for corruption. The Heritage Foundation, an American think-tank, considers Myanmar's economy the most distorted in the world save for North Korea's.

The result is a country where everything is in short supply. Power is erratic, cars are rare and telephones are unreliable. Farmers are never sure whether they will be forced to sell their crops to the government at below-market rates, and so don't plant as much as they might. Border crossings with Thailand, through which most imports pass, are often closed without warning for long periods. Goods are endlessly repaired and recycled, for want of replacements: all over Yangon, tradesmen can be seen gluing books back together, soldering ancient transistors, or respooling the tape on old audio-cassettes. The generals, however, are in total denial. They claim the economy is growing at a steady clip of 10% or more a year.

No wonder, then, that living conditions are deteriorating rapidly throughout Myanmar. The UN ranks it among the least developed countries in Asia, on a par with Cambodia and Bangladesh. But even that assessment may be over-generous, since it relies on the government's rosy statistics. In 2002, before the latest economic downturn took hold, the UN found that the average household was spending 70% of its income on food. Since then, hunger and malnutrition can only have increased. Some three-quarters of the population live below the poverty line, according to one aid worker's estimate.

The government allocates only 3% of its budget to health and 8% to education, while 29% goes to the military. Foreign donors are loth to lend to such a pariah. America and others block loans from the World Bank and the Asian Development Bank, a measure supported by the NLD. Meanwhile, less than half of

children complete primary school. Doctors complain that even basic supplies—bandages and painkillers—are hard to obtain. AIDS has become a “generalised epidemic”, with 1.2% of the population infected with HIV. Almost 100,000 new cases of tuberculosis are detected every year.

The situation is particularly bad in Myanmar's border areas, where government brutality and neglect, coupled with long-running ethnic rebellions, have lowered living standards yet further. The army often resorts to murder, rape, theft, arbitrary arrest, relocation and forced labour. In a recent report, Guy Horton, a human-rights activist, argues that these abuses are systematic, deliberate and aimed specifically at ethnic minorities, and so constitute genocide. He cites written orders from senior officers to raze villages and to kill “anyone related with the enemy”. Estimates of the total number of people killed in the border region range as high as 10,000 a year. Many more die of disease or starvation brought on by the conflict.

The border zone also has the highest prevalence of AIDS in the country. In Hpa-an, not far from the Thai border, 7.5% of pregnant women test positive for HIV. A recent report from the Council on Foreign Relations, an American think-tank, argues that Myanmar is exporting AIDS around the region. Genetic analysis shows that certain strains of AIDS prevalent in India and China originated in Myanmar.

Some Burmese hope that these grim conditions will eventually provoke their fellow citizens into an uprising. They did, after all, take to the streets in 1988 to protest against the economic mismanagement and political oppression of Ne Win's regime. Those demonstrations, although violently repressed, paved the way for the 1990 election.

Reuters

Until she's let go, the opposition's stuck

Protest at your peril

But the junta has been working assiduously since then to prevent any repetition. The authorities have clamped down particularly ferociously on students and monks, who led the protests in 1988. Universities, which were simply closed for several years, have now reopened—but in distant suburbs, far from any likely venues for demonstrations. At the first hint of trouble, classes are suspended and campuses roped off. Monasteries are also under surveillance. Troublesome ones have their funding cut. Some 300 monks are currently in jail.

Nonetheless, there are some signs of unrest. In May, three big bombs exploded in Yangon, killing at least 11 people and injuring over 100. Smaller devices explode from time to time in both Yangon and Mandalay. The SPDC dismissed the senior ranks of the army's intelligence service last year, along with Mr Khin Nyunt, who used to head it. The purge must, at the very least, have damaged the regime's spy network, and might also have started an internal rift.

But Aung Zaw, an exiled Burmese journalist, worries that protests or even coups, should they materialise, would not necessarily lead to any improvement. Instead, he argues that worsening living conditions, increasing government paranoia and growing popular resentment will simply breed greater violence. “There's a sense of hopelessness,” he laments.

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Anti-terrorism

Not again

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From The Economist print edition

AP

The government and Muslims have been seeking to stop any further bombing and deal with the aftermath of July 7th. Terrorists have a different idea

FOR the second time in as many weeks, four terrorist attacks jolted a quiet Thursday in London. Again, the targets were the Tube and a double-decker bus. Again, the capital shuddered to a halt. The relief that there was no repeat of the carnage and that the attacks appeared to have been bungled was tempered by the attackers' sinister message: that the four suicide-bombers who took 56 lives on July 7th were not alone.

The attackers struck shortly before lunch in Tube stations at Oval, in south London, Warren Street to the north and on a train near Shepherd's Bush to the west. The bus, a number 26, was to the east in Hackney, possibly completing a cruciform of terror, like the one that was mapped out on July 7th.

“I was in the carriage, reading my book,” said one man at Warren Street. “We started to smell burning wires or rubber... And then suddenly everyone started to panic and run into the next carriage. I knew it was a bomb. I said my prayers.”

But this time, although one person was injured, none of the bombs seemed to have been set off successfully—perhaps because the bombers were incompetent or ill-equipped. At Oval, a woman saw a man running up the escalator and fleeing the station. Amid suspicion that the casualty was in fact one of the bombers, police cordoned off University College Hospital.

Speaking from 10 Downing Street shortly after the attacks, Tony Blair condemned the bombers: “We know why these things are done, they're done to scare people and to frighten them, to make them anxious and worried.”

Only two days earlier at the same address, prominent Muslims had assembled an effort to prevent a repeat of the atrocity of July 7th. The hope was that they might root out troublemakers before they start buying explosives. That strategy is now in doubt, partly because of the second bombing and partly because Britain's Muslims are increasingly remote from both the government and from their self-appointed leaders.

Two weeks ago a chorus of Muslim voices condemned the London attacks and directed fellow believers to co-operate with the forces of law and order. But discord is now the rule.

Ghayasuddin Siddiqui, head of the Muslim Parliament, an established pressure group, was not invited to the meeting. He describes himself as lucky: “This gives me greater clout in the Muslim community.” As attention turns from the evils of terrorism to the trickier issues of how to stop it, the difficulties of working with the government are becoming clearer.

One reason is the government's refusal to contemplate a link between the bombings and the war in Iraq (see Bagehot). That is awkward for prominent Muslims, who warned about the radicalising potential of the war long before London was struck. Another difficulty is that Charles Clarke, the home secretary, has moved quickly to tighten Britain's anti-terrorism laws.

Of the three new laws the government wants, two are uncontroversial. Those who try to get hold of explosives and other dangerous material will face a new offence of “acts preparatory to terrorism”. Learning or teaching others how to commit atrocities will also be outlawed. Neither measure will tip the balance in the war on terror, simply because Britain's laws are already among the world's most stringent.

More worrying to Muslims is a proposed law that would ban indirect incitement to terrorism. A speaker would not have to advocate specific acts; encouraging words would be enough, provided the intention was malign. The law jars in a country that has tolerated firebrands, provided they do not foment terror in Britain.

Most inflammatory would be a move to bar foreign clerics. Mr Clarke, who already enjoys wide powers to exclude troublemakers, promises to draw up a list of “unacceptable behaviours”. In future, condoning terrorism is likely to result in a ban—a move that may appear common-sense, except that speakers regarded as mainstream by many Muslims may fall foul of the new standard.

By far the most prominent example is Yusuf al-Qaradawi, an Egyptian cleric who has frequently visited Britain. He has been condemned by politicians and the media as a defender of suicide-bombings in Israel. But Muslims see him as a humane commentator on reconciling Islam with life in the West. To them, a ban on Mr Qaradawi would be a capricious, even provocative gesture. “The message it would send to the Muslim community is that the government is trying to emasculate their religion and its leading lights,” says Inayat Bunglawala, of the Muslim Council of Britain, an influential umbrella group.

Any prominent Muslim who is close to the government when such a row erupts is likely to suffer burnt fingers. Mainstream voices such as the *Muslim News* have already hinted darkly about the dangers of being drawn in to an unIslamic agenda. As for the young hotheads whom everybody wants to reach, they were alienated from the mosques and the Muslim establishment even before the London bombings, and are likely to become more so.

Meanwhile, the real extremists are doing well. Omar Bakri Mohammed and other radical clerics, some of whom are likely to be jailed or deported, have been able to expound their views at length in the media. Their unpleasant rhetoric now seems all the more incendiary now that violence has again touched the capital.

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Computers and the health service

Terminal care

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The world's biggest government IT project is working rather well—but the biggest obstacle is convincing doctors to use it

FORGET Britain's plan for a national identity-card scheme. For social significance and political sensitivity, it is dwarfed by Connecting for Health (CFH), a planned information-technology revolution in the National Health Service.

Supporters regard it as the secret to a vastly more efficient NHS. A high-capacity network and a national "data spine" will zap medical information such as X-ray results and scans. Now it takes days or weeks. Appointments and prescriptions will be automated. Critics retort that the project is over-ambitious, unrealisable and threatens medical confidentiality.

CFH's size invites superlatives. So does the potential for screw-ups. It is almost certainly the world's biggest civil IT project and, in consultant-speak, one of the farthest-reaching "change management" programmes. It will link 31,500 family doctors (known as general practitioners, or GPs) with more than 300 hospitals. It will change the way almost all the 1.4m NHS employees do their jobs. Each year it must handle more than 300m primary consultations, getting on for 700m prescriptions, over 5m elective hospital admissions and more than 4m emergency admissions.

Contracts worth £6.2 billion ($10.8 billion) cover the procurement, development and completion of the project, which began in 2002 and will last a decade. By 2007-08, annual spending on IT in the NHS is projected to rise from less than £1 billion a year to 4% of a total £90 billion budget.

The political stakes are huge. Modernising the NHS is New Labour's crucible: if CFH cannot expand patient choice and shorten waiting lists, Tony Blair may well count his career to have ended in failure.

So is it working? Hyperbole at the outset soon gave way to pessimism—predictably so, given the scheme's complexity. The trade press has carried plenty of stories of cost overruns and conflicts within the five regional consortia set up to make it happen. A report in January from the National Audit Office, the spending watchdog, said a core application called Choose and Book was unlikely to meet its goal of being in every GP's surgery by the end of this year (see article). Although it admired the technological progress toward the application, which lets patients and their doctors choose which hospital will treat them, the report found GPs either didn't use it, or didn't know about it. That matters: in the new scheme GPs act as the point of contact for patients and as the "customers" for hospitals and clinics.

Within parts of the NHS, there is concern that Richard Granger, the chief executive of CFH who was brought in from Deloitte Consulting three years ago, has been better at roughing up the consortia and dealing with the technology than managing the human side of things. A pit-bull of a man, even his fans term him "Mr Angry".

With drive and self-belief, he has overseen a new purchasing system that has shifted much of the risk on to the consortia—BT in London, Accenture in the North East and the Eastern region, CSC in the North West and West Midlands, and Fujitsu in the South. Only when Mr Granger is satisfied do they get the bulk of their fees. Withheld payments are first put into escrow accounts and then forfeited if there is no improvement. Mr Granger recently threatened BT with the loss of a £996m contract unless it starts to meet its commitments in London.

Some worry about the way Mr Granger has set things up. Jonathan Edwards of Gartner, an IT consultancy, thinks CFH may not know enough about what's going on inside the consortia to attribute blame when things go wrong. Also, the inevitable contractual wrangles may frustrate wider objectives if they are allowed to fester.

But Mr Granger can show solid progress. The new network is supporting about a third of the NHS's employees; some 5,000 users of the data spine are registering each week; 125,000 are using a secure e-mail and directory service; and many of the chief applications, such as electronic prescriptions, are available at “early adopter” sites. When IDX, one of the software vendors, fell behind schedule, Fujitsu replaced it with Cerner, which was more advanced in its work with other consortia. Mr Granger concludes that splitting the project up regionally has made it more resilient, as he had hoped. He says there is no one “go live” moment with such a huge project, but a sequence of smaller moments—he likens it to changing the wheels on a moving vehicle. The launch will gather pace as the system's designers learn how to operate and perfect it, and users grow in experience and confidence.

Mr Granger accepts that GPs could have been better handled. One row was over the EMIS software that around 55% of surgeries use for their patients' records. Until a few months ago, not one of the consortia would work with EMIS and, egged on by the British company, doctors complained their investments would be squandered. In March CSC finally agreed to support EMIS and Mr Granger promised that other consortia would do so, too. But the damage had been done.

As with almost any IT project, the hardest task is to get users to accept a new way of working. Most people fight change unless they can see it helps them do their job—which means they want things explained and want a chance to air their views. In a recent survey of clinicians in England, only 5% said that CFH had adequately consulted them, 71% said they had not been consulted at all and only 21% of GPs were able to summon up any enthusiasm for the project.

Some GPs and consultants are balking at being asked to recast their clinical records in a uniform and, as they see it, time-consuming way. The idea is to make referrals easier and more seamless for patients and other medical practitioners who are treating them. Mr Granger observes: “It's a cultural change for them. We're asking them to go from a solipsistic to a communitarian environment.” But how many doctors understand why they are being asked to do things differently?

Many doctors also suspect the electronic record will not be secure. It will store each patient's history on a central database that will contain life-saving information, such as a record of diabetes or allergies to drugs, as well as a summary of past treatment. More detailed information would be in a “sealed envelope” that without the patient's consent will be closed to medical staff—other than his GP. Details of sexually transmitted diseases or mental health conditions would be excluded. But clinicians remain unconvinced and fear for the doctor-patient relationship.

Then again, doctors are not averse to change when it suits them. For instance, GPs have cheerfully embraced a software package called QMAS (Quality Management and Analysis System), designed to work out what they should be paid according to their lucrative new contracts. As a by-product, QMAS is helping to create a world-class epidemiological database.

The good news is that despite predictable delays and glitches, CFH is making a better fist of implementing the technological side of this dauntingly vast project than the pessimists expected. The bad news is that winning over busy, sceptical clinicians is proving altogether harder. And until that happens, it will be too soon for Mr Granger or Mr Blair to declare victory.

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Disaffected doctors

They don't get it

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Connecting for Health needs to start connecting with doctors

AT A primary-care practice in North London, Mayur Gor, a general practitioner (GP), is piloting one of the new NHSIT system's first applications. It is an e-booking service for patients being referred to a hospital for treatment. It allows them to select from among three local hospitals and to book an initial appointment with their choice. Already, the new electronic service covers about two-thirds of such patient referrals for non-emergency hospital care.

Choose and Book (C&B) is a priority because it supports the government's commitment to extend patient choice. But it has won little favour among the 31,500 GPs who must make it work. A poll published by the National Audit Office in January found that 61% of family doctors were unhappy with C&B. They fear it will increase their workload and eat into the scarce time to see patients.

At Dr Gor's surgery, however, it is hard to see what the fuss is about. He deals with the "choosing"—offering guidance—and his practice secretary then sorts out the "booking". The choosing takes three-to-four minutes, a long time given that an average consultation lasts about ten minutes. But set against this are gains in efficiency. Dr Gor can now send referral letters electronically rather than by post. He finds patients are more likely to keep their hospital appointments—and so less likely to come back to see him.

One reason family doctors are hostile to C&B is that many practices have only one or two GPs. A larger surgery like Dr Gor's, which has seven doctors, finds it easier to handle the work of arranging appointments. But all practices will get back-up support from a national call-centre, easing the administrative burden. Indeed the NAO praised this support as well as the organisation and technology that has gone into it.

The real worry is that C&B will take a long time to introduce across the NHS. The government wanted it fully operational—supporting choice from among four-five hospitals—by the end of this year. That hope has been dashed. GPs make 9.5m elective referrals a year. But by the end of June, only 1,200 appointments had been made through the e-booking service.

That spells trouble for GPs. Because the government is determined to meet its pledge to offer choice for elective care by the end of the year, family doctors will have to rely on inferior and more time-consuming means of referral. Cause to grumble, but the fault of a political deadline rather than e-booking.

Yet C&B augurs ill for more important planned IT services, which promise better care by, say, reducing medication errors and achieving the integration of care across the NHS needed for chronic conditions such as diabetes.

This calls for patient-care information to be shared through electronic records. But Paul Cundy, who speaks on behalf of GPs on IT for the British Medical Association, says clinicians want assurances about confidentiality before releasing such data.

Connecting for Health's failure to assuage such worries could prejudice its success. "Successful implementation of IT has to be both bottom-up as well as top-down," says Don Detmer, head of the American Medical Informatics Association. "If you don't engage the users all along you're going to be in trouble."

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Muslim Britain

In the melting-pot

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A distinctively British sort of Islam is slowly emerging

IN NORTH ILFORD, an affluent Tory-voting part of eastern London, there is a mosque where people from Pakistan used to run the show. Recently some Muslims from Somalia turned up. Things were awkward at first, but now the newcomers have been fully accepted; ties of faith have prevailed over difference of culture.

At Islam Channel, a television station in London, the young sound assistants chat in Urdu, the language of their south Asian forebears, as they record an interview with Brian Paddick, a senior London policeman. But when the channel's director, whose native tongue is Arabic, walks in, the language switches seamlessly to English, interlaced with Muslim greetings.

For a new generation of British Muslims, such behaviour represents the stirrings of a new identity whose common denominator is not ethnic origin, but religion. Viewed in the rosiest of lights, this could be a sign that British-born Muslims are “coming of age”—rising above the linguistic and sectarian differences that constricted earlier generations.

But this month's attacks on London laid bare a community that lives in limbo between Yorkshire and Pakistan, and revealed the limits to that process. Especially in the north of England, Muslim communities from different regions have reproduced the ideological and social divisions of their home countries—which has hindered their ability to function as British citizens, let alone prosper.

Because specific Muslim groups settled in specific British cities, there was little pressure at first to leave the ghetto. Immigrants from Mirpur, part of Kashmir, settled in Birmingham and Bradford from the 1950s onwards, to be joined later by those from Punjab and north-western Pakistan. Some northern English cities, like Huddersfield, attracted Indian Muslims, especially from Gujarat. Bangladeshis flocked to east London, while North Africans and other Arabs went to parts of west London.

From different places, there came different religious trends; among immigrants from Pakistan, most adhered to the Barelvi tradition, which reveres local saints and shrines and stresses the eternal presence of the Prophet Mohammed. Many Indian Muslims preferred the Deobandi school which puts less emphasis on the prophet, or on any other human figure, and more on the worship of God. Among British-born Muslims, this trend has proved more robust. Among the Arabs of London, some of the most devout have been attracted by the Muslim Brotherhood teachings which combine purist theology with a longing for Islamic forms of governance and law, at least in Muslim countries. In addition to all these shades of Sunni Islam, Britain hosts small Shia groups from many countries, including Iraq.

If a distinctively British variety of Islam is fully to emerge, it will be out of the encounter between these traditions. Both in universities, and through the huge social melting-pot of London, such an encounter is beginning to happen, among a generation whose common language is English and which is keener on a shared Muslim identity than on shades of difference.

But will this generation be more “moderate”—as non-Muslims would define the term—than its predecessors? Yes, if moderation means the willingness to dispense with cultural taboos, and to participate in democratic politics.

But, as young British Muslims gain in sophistication, they still tend to see world politics through an Islamic prism, identifying with their co-religionists in any place where conflict is raging. Soon after America's invasion of Afghanistan, a poll of British Muslims found that among those over 35, some 30% saw religion as their main source of identity. For those under 35, the figure was 41%.

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Subsidising good behaviour

Much-to-your-credit cards

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Can government make people better by offering them incentives to be good?

VIRTUE, according to Cardinal Newman, a 19th-century theologian, is its own reward. In most stories about good behaviour, though—from Cinderella to the Happy Prince—the rewards for being good turn out to be very material, even though they require a little patience. If the government has its way, a scheme to provide every child aged between 13 and 19 with an "opportunity card" will make the wait between a good deed and its reward disappear altogether.

Labour has a history of offering people financial incentives to do things it thinks would benefit them. The biggest example of this approach to welfare is Gordon Brown's tax-credit system, which rewards those who find work by paying back some of their taxes. Though the operation of this system has recently been heavily criticised, the principle behind it has not.

In fact, it has spread to other bits of government. Since September, children who stay on at school past the age of 16 have been eligible for a subsidy designed to keep them tethered to their desks. And the Department for Work and Pensions is currently trying out a scheme that gives unemployed single parents extra cash if they can prove they are looking for work.

Opportunity cards would apply this principle to children—and extend it. Instead of rewarding children for following their own self-interest, the cards would put the government in the business of subsidising selflessness.

Under the scheme, which is being proposed by the education department and is due to begin trials next year, the card would act as a store of value, rather like a supermarket loyalty card. Each card would start with a £12 credit from the government, plus a further £12 a month for children from low-income families. That money could be spent only on specified goods, ranging from such wholesome things as swimming lessons to trips to the cinema. Cigarettes, chocolate and other foul vices would be off-limits.

Parents could top up their child's card. But children could also fatten their accounts by "volunteering" to do good deeds locally. Conversely, money could be deducted from the card of a child caught scribbling on a bus shelter, or indulging in some other act the government has taken against. In the jargon of think-tanks and civil servants, this is called rewarding "pro-social behaviour", and, they say, contrasts with the old-fashioned approach that brutishly punishes the anti-social type.

Will it work? A couple of similar schemes exist, with mixed results. In Scotland around 80% of children aged between 12 and 18 now carry a Young Scot card. Handed out by local authorities, these give the bearer discounts at leisure centres and the movies, and double as library cards. But they can also be used for pet projects. Glasgow council, in an attempt to banish the city's reputation as the home of the deep-fried Mars bar, used the cards to run a healthy-eating campaign in schools. Children swiped their cards at canteens and received points for eating their greens. Those who renounced chips entirely were rewarded with i-Pods and video-games consoles. Glasgow council reckons the scheme was a success, though it is impossible to know if the good life persisted outside the school gates.

In England just under 600,000 below the age of 19 have cards handed out by Connexions, the government's career-advice service. These also use a points system for, say, enrolling on training courses, and can provide discounts on approved goods. So far, there is not much sign the cards have made a difference. The number of those aged 16-18 outside education, employment or training—the group Connexions is chiefly designed to help—actually rose slightly last year.

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The economy

Revisionism

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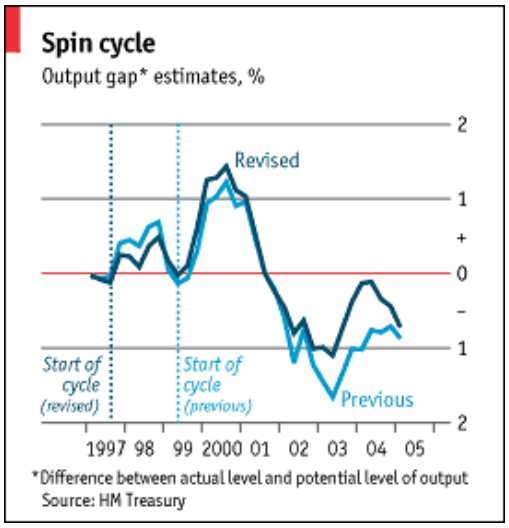
At the Treasury, politics vies with economics—and wins



THERE is clever and then there is too clever by half. This week Gordon Brown put back the start of the economic cycle by two years, to 1997. The chancellor had a defensible reason for this—a revision in June to the national growth figures suggested that, contrary to earlier belief, the economy in 1999 had not in fact marked a new cycle by dipping below its full capacity. But he also had an indefensible one.

The Treasury paper justifying the change was packed with learned analysis of "univariate time-series models" and something called the Hodrick-Prescott filter (not, one imagines, a reference to the deputy prime minister). But the thickets of technical detail could not conceal how convenient the revision was for a chancellor who has been spending too much and raising too little in taxes to pay for it.

Mr Brown's claim to have banished Labour's reputation for economic mismanagement depends on having granted independence to the Bank of England and on two self-imposed rules: to borrow over the cycle only to invest (and not for current spending) and to limit debt to a "prudent" level of GDP—taken to be below 40%. By moving the start of the cycle, he can use an extra £12 billion-20 billion in surplus from the early years to offset some extra borrowing now. By delaying the next spending round by a year, to 2007, he has created yet more room for manoeuvre—and has fed speculation that this is when he will succeed Tony Blair as prime minister. All this helps Mr Brown put off a ghastly choice: to raise taxes or break his rule. But it will still probably have to be made eventually.

The price was some flak from his Conservative opponents. The "iron chancellor has become the cheating chancellor", they complained. The "golden rule" had become a "leaden" one.

From an economic point of view, they protest too much. Mr Brown's rules should only ever have been guidelines—partly because defining the business cycle is a matter of judgment, and partly because missing the target by a few billion pounds is almost no extra threat to a British economy that happens to be slowing.

But the indefensible part is that this is all about politics: Mr Brown made a totem out of his rules and, now they have become inconvenient, he is sacrificing them. He has done this sort of thing before,

setting five “objective” tests for membership of the euro that, it turned out, only the Treasury (proprietor G. Brown) could assess. It is a trick that is wearing thin.

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Managing cricket

Bat and board

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English cricket undergoes a management revolution

"I HAVE always looked upon cricket", said the theologian William Temple, "as organised loafing." The same could often have been said of the sport's management. But if—and it remains a big if—England beats the Australian world champions in this summer's Ashes, it will be partly because ruthless organisation now backs up the spirit of fair play.

Cricket's five-year plan is full of talk about "key performance indicators" for "a customer-led, dynamic operation". Behind the jargon, the recent shake-up shares three things with any good corporate restructuring.

First, the ageing ex-players who long dominated management are being replaced. Dan Jones of Deloitte & Touche, a consultancy, says that "businessmen who used to sit in the stands are now sitting in the boardrooms." Chief among them is David Collier, a business-school-educated former vice-president of American Airlines, who took over as head of the England and Wales Cricket Board (ECB) last year.

Second, the new top brass is running the game better. Mr Collier's 700-page internal plan promotes streamlined management, with three governing committees being merged into one. He plans to decentralise power and use performance-related pay to reward counties that produce England stars. And the £220m pocketed when broadcast rights were controversially sold to Sky earlier this year will help pay for further improvements to grounds and clubs.

Third, the bosses came up with a new product. A few years ago Stuart Robinson, then the ECB's head of marketing, undertook "the biggest research exercise in cricket history". Polls and focus groups convinced him to "concentrate on product differentiation and market segmentation" by inventing a new sort of game that appealed to young people and families instead of old men. The resulting Twenty20 cricket, a shorter and more entertaining game played in the evening, is hugely popular and plays to packed grounds across the country.

The past decade's work has raised cricket's profile, improved its finances and allowed investment in school and club competitions. In that time, the national team has climbed from among the worst in the world to second-best. Against Australia good management is no guarantee of success, but it is a start.

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Bagehot

Business (almost) as usual

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After only two weeks, the consensus on terror already looks fragile

EVEN after an event as shocking as the terrorist bombings in London on July 7th, never underestimate the speed with which politics returns to something resembling normality.

In the immediate aftermath of the outrage only George Galloway was sufficiently tasteless to argue that Londoners were being killed as payback for Tony Blair's Iraq policy. But where Mr Galloway led, plenty of others have since been emboldened to tiptoe carefully behind. To name just a few: Clare Short and Robin Cook (tireless in their pursuit of vindication after resigning from the cabinet over the war), the BBC (which still seethes over Hutton) and Charles Kennedy (reluctant to give up whistling his most popular tune).

At a Downing Street press conference on July 19th with President Hamid Karzai of Afghanistan, Mr Blair was pressed to admit his support for the war had made life more dangerous for ordinary Britons. Helping the blame-game along was a well-timed report on terrorism in Britain from the Royal Institute of International Affairs (known as Chatham House) and a conveniently leaked, month-old threat analysis from the government's own JTAC (Joint Terrorism Analysis Centre), a body that pools intelligence from different agencies. JTAC warned that Iraq had provided a “motivation and a focus for a range of terrorist-related activity in the UK”, while the Chatham House academics said “Iraq has imposed particular difficulties for the UK”.

Neither was stating much more than the bleeding obvious: the Iraq war has made a lot of British Muslims angry and has provided both the excuse and the opportunity for a few narcissistic dupes to sign up to terror. Sir David Omand, the prime minister's security adviser, would almost certainly have told Mr Blair something very similar before his retirement earlier this year. An ICM poll in the *Guardian* this week found that 64% reckoned that the invasion of Iraq bore at least some responsibility for what had happened a fortnight ago. For Mr Blair, as his enemies are well aware, that is an uncomfortably large number of people who think his actions have made them just a bit less safe.

Mr Blair is right when he says that London would have been a target even if Britain hadn't invaded Iraq, while not even his fiercest critics dare to suggest that the war actually justifies murdering commuters. But by forcing him to deny the mere possibility of a connection between Iraq and the phenomenon of home-grown terrorism, his foes succeed in making him seem dishonest or self-deluding. Business as usual then, and back to earth for Mr Blair after all the praise of the past few weeks.

The blame over Iraq is not the only symptom of a return to normality. On the face of it, the cross-party consensus that was created by the bombings is still intact. On July 18th Charles Clarke, the home secretary, and his Tory and Liberal Democrat shadows, David Davis and Mark Oaten, stood shoulder to shoulder for the television cameras outside the Home Office after agreeing that new anti-terrorism measures should be sped through Parliament in the autumn.

The following day, similarly reassuring images were transmitted from Downing Street, showing the leaders of the three main parties gathered round a table with suitably concerned representatives of the British Muslim establishment. The message was that all three were united in helping the Muslim community confront and root out the extremists in its midst. Meanwhile, all knock-about has been banished from the normally gladiatorial event of prime minister's question time.

For the moment, the show of unity suits everybody: the government avoids being implicated in any security failures; the outgoing Tory leader, Michael Howard, escapes having to go through the motions of ineffective opposition before his departure; his likely successor, Mr Davis, can look grave and experienced; for the Liberal Democrats, Mr Kennedy can demonstrate that being anti-war doesn't mean

you're soft on terrorism.

Beneath the surface

But appearances can be deceptive. The Lib Dems are as keen as ever to embarrass the prime minister over Iraq when the opportunity arises, while the Tories are deeply critical of the government over several aspects of its handling of terrorism. They might have concluded it would be wrong as well as politically inept to demand an immediate inquiry into whether mistakes were made in the run-up to July 7th, but the Tories are not averse to making sure that newspapers pick away at the government and its running of the security services.

Was Labour negligent in tackling the problem of jihadist extremism in Muslim communities because it feared giving further offence to traditionally loyal Labour voters? What role did sloppy policing of borders play in allowing a suspect already on a watch-list to enter the country at Felixstowe and slip out again from Heathrow? Did a lack of urgency in giving M15 extra funding after the attacks of September 11th undermine its ability to keep dangerous characters under surveillance?

For its part, the government—particularly Mr Blair—is still furious with the Tories over their attempts before the election to sabotage legislation allowing the home secretary a range of so-called “control orders” to restrict the freedom of terrorist suspects. Mr Davis still accuses Mr Blair of political grandstanding over the control orders, which he has conspicuously kept out of the deal with Mr Clarke to speed up anti-terror legislation. Mr Blair, on the other hand, has not forgiven anyone he thinks implied he was exaggerating the terrorist threat for electoral gain.

The approach of August and the summer recess will take the heat out of some of these simmering tensions. But when Parliament returns and the Conservative Party leadership contest officially gets under way, today's truce is likely to become a distant memory. Mr Blair and the combative Mr Davis will see to that.

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Vacancy

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From The Economist print edition

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Counter-terrorism in Europe

The fight within

Jul 21st 2005
From The Economist print edition

In fits and starts, European countries are learning to co-operate more closely, and to share intelligence, in the battle against terrorism

THE decision embarrassed one country, and irritated others intensely. And, with fears of fresh terrorist attacks mounting all over Europe, the timing could not have been less propitious. On July 18th Germany's highest court ruled that a German citizen of Syrian origin, Mamoun Darkazanli, could not be extradited to Spain, where a prosecutor wants to try him as an “interlocutor and assistant” of Osama bin Laden and his network. The suspect has a history of close legal shaves. Last November, he escaped extradition after a court ruling, issued as he was strapped into a helicopter to start his journey to Spain. After the latest decision, lamented by Brigitte Zypries, Germany's justice minister, as a “blow to the government in its fight against terrorism”, he was yet again freed in Hamburg.

In a sharp rebuke to the federal government for its sloppy legal drafting, the court froze the operation in Germany of the “European arrest warrant”. This newish procedure is meant to be a showpiece of the European Union's commitment to fight terrorism and other serious crimes. It has already been invoked some 400 times, by different EU countries, to speed up extraditions. But the German judges found that legislators in Berlin had violated the constitution by passing a law that deprived suspects of a chance to challenge their deportation—even when (as with Mr Darkazanli) many of the alleged misdeeds took place on German soil.

Presumably, Germany's politicians will now take the hint and redraft the law to meet the court's concerns. The court has not challenged the European arrest procedure itself—merely how it was put into effect. But the row over Mr Darkazanli, who was filmed at a wedding in Hamburg with two of the September 11th hijackers, reflects deeper problems facing all EU countries as they confront terrorism.

After the attacks on America, and again after last year's Madrid train bombings, EU members made copious promises to co-operate in the fight against terror. An “action plan”, including 150 separate measures, was launched in June last year. Some two-thirds of these have been translated into political decisions, including EU-wide agreements to bring in passports with two biometric identifiers (facial scans and fingerprints) and to play a bigger part in the international drive against illegal money transfers. The “situation centre” in Brussels, where EU members share intelligence assessments, has begun looking at domestic threats as well as external ones; it has already done some analysis of the London bombings.

This week the European Commission proposed more measures, including making explosives more easily traceable and restricting sales of farm fertiliser.

The EU's embryonic law-enforcement institutions—the Europol police agency, and Eurojust, through which prosecutors co-operate—are heavily engaged in anti-terrorism work, building relations with their much bigger brothers in America. Important decisions will come this autumn, such as making personal data more easily available to investigators while also introducing an EU-wide system of data protection. Treading delicately in sensitive territory, the commission is preparing a paper on “radicalisation”—polite language for discontent among young Muslims that prompts a few to become terrorists. But officials stress that this will describe the problem, not prescribe solutions; only national governments can do that.

Nor is there any guarantee that common threats will translate into common action. As the EU grows larger, so does queasiness in its biggest members about sharing really hot intelligence with the entire block, says Daniel Keohane of the Centre for European Reform, a think-tank. “There will be no Euro-CIA,” he thinks.

This climate leaves the EU's top counter-terrorism official, Gijs de Vries of the Netherlands, in the role of persuader rather than enforcer. But, at least in theory, EU members accept the need to overcome one paradox of an integrating Europe: a virtual absence of border checks in much of Europe (at least before the London bombs prompted some to reimpose them) has made it easy for terrorists to cross frontiers, while detectives and prosecutors remain hamstrung by national borders.

At everyday level, barriers to co-operation are rarely insuperable. The security services of France and America have let it be known that they are co-operating far more closely against terror (in part through a new intelligence-sharing centre in France) than anybody would guess. In the words of François Heisbourg, of the Foundation for Strategic Research in Paris, “there's now good security co-operation between those western allies which are prepared to treat one another as equal partners.” Even French complaints of British leniency (especially to Islamists from Algeria) have faded since a recent British decision to extradite a man suspected of financing the 1995 Metro bombings in Paris.

Individual acts of co-operation between European countries are one thing. Longer-term efforts to turn counter-terrorism into a pan-European activity are something else. And, as the Darkazanli case shows, that is a much harder task. Moreover, the problems are not just legal and technical, but political and ethical.

In all European countries, hard questions have been posed by the twin challenges of terrorism and Muslim disaffection. One is how far civil liberty should be sacrificed for security. Another is how to balance help for ethnic and religious minorities with a harder-nosed insistence that all citizens obey the law. Whatever answers are found to these questions, they are not likely to be imposed from Brussels—least of all when the EU is itself in something of an existential crisis.

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Italy and Islam

Oriana's thread

Jul 21st 2005 | ROME
From The Economist print edition

A vituperative literary crusader against Muslims

THERE is nothing al-Qaeda would like more than for Europeans to turn on Muslims in their midst, uniting fundamentalist militants with those who are neither fundamentalist nor militant. In that sense, Osama bin Laden won yet another victory this week with the publication of another hate-filled, anti-Islamic diatribe by an Italian writer who has become noted for such diatribes: Oriana Fallaci. Over the past three years, the 76-year-old Ms Fallaci has carved out a role as the voice of what might be a new European racism—were race, not religion, her primary cause.

Ms Fallaci hates Muslims. All of them. The idea of moderation in Islam, she wrote this week, is a fraud and an illusion. Tolerance of Muslims is a comedy; integration by them is a lie; multiculturalism is a farce. Europe, infiltrated by illegal Muslim immigrants who tend to have a higher birth rate than the natives, is turning into “Eurabia”. Her thoughts were first aired after the September 11th attacks on New York, where Ms Fallaci lives. She has since written two more books in the same vein. In May, an Italian judge committed her for trial on charges of offending Islam, but this has served only to reinforce her self-image as a wronged Cassandra. Her writings have been the subject of legal proceedings in France and Switzerland.

What is most alarming is not the virulence of Ms Fallaci's ideas but the backing they have received in Italy and America. Her books have been bestsellers. Her publisher, Rizzoli, markets them in lush, boxed editions of a sort normally reserved for the collected works of great authors. Italy's most respected newspaper, *Corriere della Sera*, part of the same group as Rizzoli, gave her over two pages for her latest onslaught. Ms Fallaci has become one of the darlings of Italy's ruling class, especially of the xenophobic Northern League.

Some support for her is purely libertarian, based on the right to express opinions even if they are offensive, incendiary and blasphemous. But a lot also reflects sympathy with her views. Paradoxically, such sympathy is often expressed by the same people who were most impressed by Britain's measured reaction to the London bombings. And yet that reaction reflected in large degree a belief in the virtue of the same multiculturalism that Ms Fallaci and her friends so despise.

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The French elite

In ENA we trust

Jul 21st 2005 | PARIS
From The Economist print edition

The long reach of the class of 1980

EVERY student of France is familiar with the *énarques*, graduates of the Ecole Nationale d'Administration. They account for seven of the past ten prime ministers, including Dominique de Villepin, the current one, as well as President Jacques Chirac. From time to time, ENA's grip tightens. Consider the class of 1980, known as the *promotion Voltaire*. This crop, mostly in their early 50s, from a class of just over 100, is now running the country.

On the centre-right, the year included not only Mr de Villepin (and his sister, Véronique), but also Pierre Mongin, his *directeur du cabinet*, and Renaud Donnedieu de Vabres, a cabinet minister. On the left, it numbered François Hollande, the Socialist leader, and Ségolène Royal, his partner and popular Socialist regional boss: the two met at ENA. In business, the year of 1980 counts Henri de Castries, head of AXA, an insurance giant, and Jean-Pierre Jouyet, ex-head of the French Treasury and now head of Barclays France. Among several other top executives appears the figure of Marie-Françoise Bechtel, who was until recently director of, well, ENA.

All countries train an elite. And *énarques* are usually brilliant and serious. So why, lament ENA's defenders, the disdain? There are two answers, says Ghislaine Ottenheimer, author of a study of ENA's top caste—the *inspecteurs des finances*. The school is too selective, training barely 100 a year next to thousands turned out by Oxbridge or America's Ivy League universities, creating a sect-like system of mutual self-protection. And it produces technocrats soaked in a theoretical, statist thinking ill-adapted to a world of global capitalism: “an immense machine”, she writes, “for manufacturing clones”.

Could these weaknesses be connected with France's crisis of confidence in its elite? Disillusion with a group that has lost touch with ordinary folk lay behind the rejection of the European Union constitution in May. Mr Chirac, in his Bastille Day television appearance, blithely insisted that the vote was “not the message of a morose France”, confirming that loss of touch. ENA has no monopoly on training the French establishment: Nicolas Sarkozy, a front-runner for the presidency after Mr Chirac, is no *énarque*, one reason why he is readier than many to criticise the French model. But the reach of just one year's class raises questions about ENA's influence, for good or ill.

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The Czechs and the second world war

Who's the madman?

Jul 21st 2005
From The Economist print edition

Czech leaders wrangle about history, politics—and sanity

BEING a big man in a small country is bad enough. But President Vaclav Klaus of the Czech Republic is also fed up with the constraints of his largely symbolic office, and with living in the shadow of his celebrity predecessor, Vaclav Havel. In the past couple of weeks he has called for the scrapping of the European Union and its replacement by a free-trade block called the Organisation of European States. He has denounced multiculturalism as a breeding ground for terrorism. And he has declared that the country's new prime minister, Jiri Paroubek, “has taken leave of his senses”.

This last claim is harsh even by Mr Klaus's robust standards. The worst that had previously been said of Mr Paroubek, a former deputy mayor of Prague, was that he seemed an undistinguished candidate for the job. But that now seems unfair. He has put a new zing into his country's foreign relations—to Mr Klaus's intense, if unjustified, annoyance. Recently, the prime minister has addressed one of the big frozen questions of central Europe: the expulsion after the second world war of 3m-plus Germans and Hungarians from the former Czechoslovakia.

Czechs and Slovaks are twitchy about this. It may have been brutal and unfair, they argue, but it was necessary. Many of the Germans had supported Hitler, and thus contributed to the destruction of the pre-war Czechoslovak state. The issue was parked by a joint Czech-German declaration in 1997, in which the two countries agreed to disagree about this aspect of their history. But Mr Paroubek now says that he wants his country to pay at least symbolic compensation to the surviving anti-Nazi Germans—Catholics, trade unionists and the like—who were deported despite having resisted Hitler and defended democracy.

That may have been commendably fair-minded and thoughtful, but it annoyed many people. An outfit for surviving expellees said it was a bid to divide them (they want compensation for all Germans, not just good ones). Slovakia said it wanted nothing to do with the scheme. And Mr Klaus termed the move “exceptionally dangerous”. When Mr Paroubek noted that the president was in “peculiar company”, by allying with revanchist Germans, Mr Klaus said he had gone mad.

Reconciliation is in fashion across central Europe. Poland has just buried a thorny dispute with Ukraine over bloody conflicts in both world wars. A top Slovak politician, Frantisek Miklosko, has made a personal apology to Hungarians for their post-war deportation and repression.

Mr Klaus loathes all this, seeing it as the kind of elitist mushiness that was a trademark of his predecessor. In a recent speech on the anniversary of the war's end, he criticised both the desire to “rewrite history” and the failure “to distinguish between culprits and victims”. Many Czechs, who like Mr Klaus's confident, brainy approach to the national interest, will agree. But it is the modest-seeming Mr Paroubek who is running the country, and he is making friends too.

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Drought in south-western Europe

The great desiccation

Jul 21st 2005 | MADRID
From The Economist print edition

Water shortages in Spain reflect low prices as much as drought

AFP

Air, earth, fire—and lack of water

THE rain in Spain falls so rarely in the plain nowadays that the might of the church has been called in. One of the last pronouncements of Pope John Paul II was to scold Spain's new government for scrapping a plan to divert water from the River Ebro in the north to the parched south. As Spain endures its worst drought since 1947, the bishop of Cartagena, in Murcia, has pledged to fight for his flock's water.

Some reservoirs in the south are only 20% full; many rivers are running at a third of normal volume. Emergency restrictions have been imposed across half the country. Farmers face a disastrous two years. The government puts agricultural losses caused by drought at €1.7 billion ($2.1 billion) already. Vegetables are being watered with untreated sewage in parts of Murcia. Water consumption quintuples in July and August in coastal regions; visitors to Spain's beaches this summer may face water rationing. “Spain is about to die of thirst,” said the newspaper *El Mundo*.

The country's desiccated condition was shown last week when a massive fire, apparently started by a barbecue, killed 11 volunteer firemen and destroyed 30,000 acres of pine forest in Guadalajara. Other Mediterranean countries such as France and Italy are suffering too—though Romania is experiencing catastrophic floods. Spain's neighbour, Portugal, has demanded €6m in compensation from Madrid after water levels in the River Douro fell below limits in a bilateral agreement.

A “water war” has also erupted over Castile-La Mancha's diversion of the River Tajo at Murcia's expense. Murcia dismisses claims that it uses the water for golf courses—it is needed for fruit and vegetables. Yet the number of golf courses in Spain has doubled in the past five years, to 276; another 150 are planned. They are meant to lure 800,000 rich golfers a year to Spain. Castile-La Mancha deployed a spy-plane to see how Murcia and Alicante manage their water, and concluded that they have 14,000 secret reservoirs.

A government report gives warning that a third of Spain may turn into desert because of climate change, poor farming practices and tourism. Spain's construction boom, which saw a record 700,000 new homes built in 2004, half of them on the southern coast, has also led to the building of thousands of illegal wells, further sapping water supplies. Farmers complain that foreign tourists, such as those pesky golfers, take their water. But Cristina Narbona, the environment minister, points out that

four-fifths of Spain's water goes to agriculture; some 90% is used in inefficient flood irrigation rather than drip irrigation. Spain also loses millions of gallons in leaks from antiquated pipes.

The scarcity of water has not made it expensive, as elementary economics might suggest. Far from it: on average, water in Spain costs one-thirtieth of prices elsewhere in Europe. Spanish families devote less than 1% of their incomes to water. As the newspaper *El País* has suggested, “the price of water must be increased considerably. Only in this way can the waste be stopped.” Yet a plan to penalise farmers who waste water and to make tourist resorts and golf courses pay 15 times more than the average household was beaten off by the agriculture ministry—even though these matters are supposed under EU rules to be decided locally.

Ms Narbona has announced a €370m budget to fight the drought, with more desalination plants, more recycling, new wells and plans to plug leaks. But unless prices are raised, Spain will suffer: subsidised water producing subsidised crops, and aiding the coastal construction boom. The biggest lesson of this drought should be economic, not environmental.

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Turkey and the Kurds

Days of terror

Jul 21st 2005 | ANKARA, BATMAN AND KUSADASI
From The Economist print edition

Violent Kurdish terrorism returns to Turkey, with little solution in sight

EPA

The Kurdish question, chillingly posed

IS IT a return to the bad old days? The question preys on the minds of Turks and Kurds alike, as violence escalates between Kurdish PKK rebels and the army in Turkey's predominantly Kurdish south-eastern provinces. On July 18th four Turkish soldiers were killed when the PKK detonated a bomb in Hakkari, right next to Iraq. They were the latest victims in a series of attacks that have claimed nearly 150 lives, including 37 civilians, since the PKK ended its truce on June 1st last year.

Turkey's deputy chief of the general staff, Ilker Basbug, promised this week that the violence was containable. The PKK no longer enjoys widespread support among Kurdish villagers, over a million of whom were forcibly evicted by the army during its scorched-earth campaign against the terrorists in the 1990s. Iran and Syria have stopped arming and hosting the PKK, in hopes of wooing Turkey. But the PKK has spread itself further into northern Iraq.

It also seems to have started hitting coastal resorts again, in hopes of wrecking Turkey's booming tourism industry. On July 16th five people, including an Irishwoman and a Briton, were killed in the Aegean resort of Kusadasi by a parcel bomb on a minibus. PKK leaders denied involvement, but British and Turkish investigators say that the attack bore all the hallmarks of a newly formed urban terrorist group, known as the Kurdistan Liberation Hawks.

Why has the PKK resumed its fighting, after renouncing violence in 1999 under orders from its imprisoned leader, Abdullah Ocalan? The peace enabled the government of Recep Tayyip Erdogan to grant Turkey's 14m-odd Kurds unprecedented freedom. In the streets of Diyarbakir, Kurdish activists gather signatures supporting federalism, an act that would once have landed them in jail. The previously outlawed Kurdish language is being taught in private courses. Indeed, it is the dearth of pupils, not official harassment, that worries schools. “The same Kurdish nationalists, who encouraged our youths to lay down their lives so we could speak Kurdish, prefer to send their kids to ballet and English classes,” fumed the director of a Kurdish-language school in Batman that went bust this week.

The PKK's main motive for its renewed terror campaign is no longer to secure rights for the Kurds but to bully the government into offering an amnesty not only to PKK fighters but also to their leaders. Mr Erdogan has vowed not to bow to this demand. Even so, his pledge has not staunched mounting public fury against the Kurds. This week a group of vigilantes beat up lawyers and relatives of a 12-year-old Kurdish boy and his father, shot dead last November by security forces in Mardin. One official implicated in those killings was promoted soon afterwards. A mysterious group has been stencilling “the world should be Turkish” in bold red letters on walls in Ankara and Izmir. Some fret that enmity between ordinary Turks and Kurds, averted even during the worst days of PKK terrorism, could now take root, even in Istanbul and the west.

The contempt felt by most Turks for the country's biggest pro-Kurdish group, Dehap, is increasingly shared by European Union governments, as well as by Kurdish intellectuals. Dehap's failure to condemn the July 6th killing in Diyarbakir of Hikmet Fidan, a prominent Kurdish politician and fierce critic of Mr Ocalan's, has reinforced its image as a PKK stooge. Perhaps Dehap leaders were trying to avoid Mr Fidan's fate—police say he was killed by the PKK.

This is not to say that Ankara is blameless. Since coming to power almost three years ago, Mr Erdogan's government has, partly at the EU's behest, relaxed curbs on human rights, but it has not found a comprehensive answer to the Kurdish question. High unemployment in the south-east has led to a sharp rise in juvenile crime and prostitution. Mr Erdogan needs a formula to coax as many as 5,000 rebels out of their mountain strongholds. Previous amnesties, offered only to those willing to rat on their comrades, have failed.

Instead, Mr Erdogan is sounding increasingly bellicose. Last week he said that Turkey would send its troops into northern Iraq in pursuit of PKK terrorists, if need be. His threats (termed a last resort by General Basbug) prompted a stern response from the Iraqis and their American mentors. “Not a good idea,” commented Dan Fried, the American assistant secretary of state for Europe.

Yet the Americans have not explained why they have done so little to dislodge the rebels from Iraq. The official line is that defeating the PKK would take some 10,000 troops, which the Americans can ill afford when they are fighting the Sunni insurgency. The Turks counter that the Americans could at least track and capture a couple of PKK leaders, if only to show willing. But Pentagon officials, still smarting from Turkey's refusal in March 2003 to allow American troops to invade Iraq from its territory, are in no mood to oblige.

Turkey must resolve its Kurdish problems alone. And if decades of bloodshed have proved anything, it is that a purely military solution is no solution at all.

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Charlemagne

All aboard the freedom train?

Jul 21st 2005
From The Economist print edition

How Americans and Europeans might come together over spreading democracy in the Arab world

THE American administration, with its taste for inspiring sound-bites, calls it the “freedom agenda”. The European Union, with its preference for bureaucratic obscurity, calls it the “Barcelona process”. But both are, in their different styles, talking about the idea that they should find ways to promote democratic change in the Middle East. After the London bombings, could this become a common theme that helps to reunite hitherto squabbling transatlantic partners?

Recent history is not encouraging. American officials still shudder over the sudden haste with which Spain withdrew its troops from Iraq soon after the March 2004 election that followed the Madrid train bombs. They know that the divisions and ill feelings provoked by the Iraq war remain. Yet at a dinner in Brussels a few days after the London bombings, organised by the German Marshall Fund, Daniel Fried, the American assistant secretary of state for Europe, struck a more hopeful note.

Mr Fried said that the Bush administration had come to a settled view that an essential component of winning the war on terror was to press for social and political change in the Islamic world. The old emphasis on stability and oil, he said, had given way to a new emphasis on change and democracy: “the freedom agenda”. The administration is clear that it needs European support for this project because, as Mr Fried puts it, “the United States and Europe have political legitimacy when they act together.” He cites the ending of the Syrian occupation of Lebanon as a model: Americans and Europeans (with France in the vanguard) worked closely together to push for the withdrawal.

There are signs that European thinking on democracy in the wider Middle East is changing. One senior EU diplomat thinks that “a resurgence of terrorism is likely to make Europeans more receptive to American-style arguments that real stability can only be produced by internal change in the societies that produce terrorists.” He admits that the Barcelona process has been timid in promoting this, concentrating instead on such micro reforms as helping to set up proper commercial courts. But he adds that Europeans have good reason for caution. “Trying a few radical experiments to see if you can turn Morocco into an all-singing, all-dancing democracy might be fun if you are on the other side of the Atlantic. It's a bit different if you are in Spain, and living just a few miles across the water.”

This longstanding European fear that an American-led crusade for democracy in the Middle East could end up replacing bad regimes with worse ones, or just with violent anarchy, has been reinforced by the war in Iraq. Only the most diehard America-haters now actually want the Americans to lose: the stakes are too high for that. But Iraq is exhibit one for those Europeans who like to argue that American naivety about democracy in the Middle East could lead to disaster—and that European countries' proximity and large indigenous Muslim populations mean that it is they who would suffer most from the blow-back from any such disaster. For example, François Heisbourg, now at the Foundation for Strategic Research in Paris, argues that America has inadvertently turned Iraq into a “*jihad* factory”.

George Bush's oft-repeated statements that, on the contrary, “freedom is on the march” in Iraq only increase European anxiety about what the “freedom agenda” might entail. One veteran British diplomat makes the traditional argument for the devil-you-know: “get rid of the House of Saud”, he predicts, “and you will be screaming for them to come back within months.” A senior American official retorts that “we don't want to get rid of the House of Saud.” But this produces yet another reason for European scepticism; the feeling that ringing moral commitments will quickly be compromised by America's strategic and other interests, such as oil supplies or the protection of Israel.

It is not just the Bush administration's closeness to the House of Saud (or to Israel) that raises eyebrows. Craig Murray, a former British ambassador to Uzbekistan, has become a vociferous critic of

what he regards as American (and British) complicity in tyranny in Central Asia, because governments such as Islam Karimov's in Uzbekistan remain such useful allies in the “war on terror”. Even the Poles, who take America's commitment to liberty much more seriously than their world-weary western European neighbours, complain that Mr Bush has been too soft with Russia's president, Vladimir Putin, over Chechnya.

Europe awakes

Yet even as Europeans remain adept at picking holes in grand strategic visions emanating from Washington, some American arguments about the nature of radical Islam are beginning to resonate more widely. After the London attacks, there is less talk of understanding the despair that motivates suicide-bombers, and more recognition that, as Tony Blair has put it, there is an evil ideology underlying the attacks. The idea that Europeans have been blind to the threat that radical Islam poses to their own societies, which is now a commonplace of American conservative discourse, from Bernard Lewis to Francis Fukuyama, is also being taken much more seriously in Europe. It has become conventional wisdom in the Netherlands that multiculturalism has failed, and that radical Islam is a threat to Dutch society. And few French politicians believe that their opposition to the Iraq war has made their country immune from terror.

All this debate and argument across the Atlantic may yet form the basis for a new understanding. After Iraq, the Bush administration has become more inclined to acknowledge that it cannot remake the world on its own. After London and Madrid, most Europeans realise that they now face a threat from radical Islam. If the two sides can overcome their past mutual suspicions, they might once again unite to face the new common enemy. They might even agree that spreading democracy is the only lasting way of defeating it.

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The Supreme Court

A hard man to demonise

Jul 21st 2005 | WASHINGTON, DC
From The Economist print edition

EPA

In John Roberts, George Bush has made a shrewd pick for the Supreme Court

IT'S a bit like trying to prosecute a mob boss. You know he's a bad guy because he hangs out with other bad guys. But you can't prove it because no one outside that tight-knit group has actually heard him give the order to shake down the local casino or fit a rival with concrete boots.

Left-wing activists are sure they don't like John Roberts, the man President George Bush nominated on July 19th for the Supreme Court. He must be a right-wing extremist because he makes speeches to the Federalist Society (a group of conservative lawyers) and, of course, because George Bush nominated him. But there is not much evidence of Mr Roberts's alleged extremism. He has been a judge on the Circuit Court of Appeals for the District of Columbia for a mere two years, during which time he has offered few controversial opinions about anything.

His best-known ruling concerned a 12-year-old girl who was arrested for eating a French fry in a Metro station in Washington, DC. The question before him was not whether the capital's rules on snacking in the subway were too harsh—he sounded rather sympathetic to the girl's plight—but whether they violated the constitution's fourth and fifth amendments (which bar “unreasonable searches” and guarantee “due process”). He ruled that they did not, and his two fellow judges agreed.

Mr Roberts has grappled with some divisive issues. Last week, for example, he joined the panel that ruled that the terrorist suspects held at Guantánamo Bay should not enjoy the rights granted by the Geneva Convention to uniformed prisoners-of-war, and that military commissions, previously ruled illegal, could try them. That upset civil libertarians and Europeans but, by American standards, he was hardly going out on a limb. As with most of Mr Roberts's rulings, none of the other judges dissented.

The Democrats in the Senate will find it hard to block Mr Roberts's appointment. For one thing, none of them objected to his elevation to the appeals court in 2003. For another, since they are a minority, they can keep him off the Supreme Court only by filibustering—that is, standing up on the Senate floor and waffling for so long that no confirmation vote can be held.

This is an extreme tactic. Faced with a Republican threat to abolish the filibuster entirely if, in their view, it was misused, Democrats agreed in May not to use it except in “extraordinary circumstances”. Could

they plausibly argue that Mr Roberts's nomination merits this label, when his private life appears spotless and they can't find any political dirt on him either?

From Mr Bush's perspective, that makes Mr Roberts a shrewd choice. No one can call him under-qualified. Twenty-five years ago he was clerking for William Rehnquist, who is now chief justice. As an advocate, he represented the government before the Supreme Court 39 times, winning almost universal admiration for his eloquence. He is also a mild, likeable family man with friends from both parties.

Liberal groups are gamely struggling to demonise him. Moveon.org calls him “a right-wing corporate lawyer” (he made a small fortune in private practice) and an “ideologue”. The evidence? “While working for mining companies, [he] opposed clean air rules.” While working for the government, he “tried to keep Congress from defending the Voting Rights Act [ensuring the right of black Americans to vote]”. And in 1990, he wrote that *Roe v Wade*, the 1973 decision creating a constitutional right to abortion, should be “overruled”.

The weakness of these charges is that they all refer to arguments he made as an advocate, not to rulings he made as a judge. An advocate presents a case on behalf of a client. He doesn't have to believe it. On the emotive question of abortion, it is unclear what Mr Roberts really thinks. In 2003, he said that “*Roe v Wade* is the settled law of the land” and that “There's nothing in my personal views that would prevent me from fully and faithfully applying that precedent.” But that was during Senate hearings before his appointment to the appeals court, where he knew he would be obliged to bow to precedents set by the Supreme Court. Once on the highest bench, Mr Roberts would be free to vote to unsettle old precedents.

One more social conservative would not be enough to overturn *Roe v Wade*, but he might restrict some aspects of a woman's “right to choose”. In 2000, by a margin of 5-4, the court ruled unconstitutional a state ban on “partial-birth abortion” (when a foetus is half-delivered and then killed) that failed to make an exception when the mother's life was in danger. One vote could reverse that.

The vacancy Mr Roberts is to fill was created by the retirement earlier this month of Justice Sandra Day O'Connor. Many people, including Mr Bush's wife, were hoping that another woman would be nominated. Others were hoping Mr Bush would name the court's first Latino justice. But for those who worry more about substance than appearances, the important thing about Justice O'Connor is not her sex but the fact that she has been the swing voter on a court that has often otherwise been evenly divided.

If confirmed, Mr Roberts could alter the court's balance for decades to come. Since appointments are for life and Mr Roberts is only 50, he could still be handing down rulings in 2040. Senate Democrats understand how high the stakes are, and have promised to grill him before the confirmation vote, which is expected in September.

But will they dare to try to block him? If they use the “nuclear option” of the filibuster, the Republican majority might opt to abolish the filibuster itself. That would give Mr Bush a free hand to fill any judicial vacancy with anyone he chooses, and there could be another gap on the Supreme Court before long. The 80-year-old Mr Rehnquist has denied rumours that he is planning to retire, but his thyroid cancer may some day force him to.

The Democrats' best hope may be that Mr Roberts turns out to be less conservative than he appears, as did Justices David Souter and Anthony Kennedy, both Republican appointees. On July 20th, liberals drew comfort from an unaccustomed source, when Ann Coulter, an intemperate right-wing commentator, condemned Mr Roberts as a “Rorschach blot” whose conservatism was impossible to discern.

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America and China

Sizing up the dragon

Jul 21st 2005 | BEIJING AND WASHINGTON, DC
From The Economist print edition

The Pentagon wonders whether China may threaten more than Taiwan

EPA

California, here we come!

HOW big a threat is China's military build-up? Most foreign-policy makers in the administration think it represents the most significant long-term challenge to America's global security. China itself, on the other hand, finds it unconscionable that any country should regard its secretive build-up as worrying—which is odd, given that military spending, by official calculations, has been increasing at double-digit rates for much of the past decade. Both sides may breathe a temporary sigh of relief this week that the Pentagon, in a long delayed and much debated report on China's military strength, suggests that China itself has not yet decided what to do with its own growing power.

China, says the report, is facing a strategic crossroads. It could choose “a pathway of peaceful integration and benign competition”. Or, it says politely, it could “emerge to exert dominant influence in an expanding sphere.” It could also become less confident and focus inwards on challenges to national unity and the Communist Party's legitimacy. “The future of a rising China is not yet set immutably on one course or another,” is the cautious conclusion.

The Pentagon was due to issue the annual report earlier this year, but the State Department and other agencies reportedly worried that some of its language was too blunt. The administration faces difficult negotiations over North Korea's nuclear programme, in which China is playing a central role. Congress is in a protectionist lather about China's fixed exchange-rate regime and the country's bids to buy two of America's best-known companies, Unocal and Maytag (see article). A bill before the House of Representatives would allow countervailing duties to be slapped on Chinese goods. Preoccupied as America is with security issues elsewhere, a spat over China's perceived military ambitions was the last thing the administration wanted.

Despite its non-committal language, however, the 45-page report still paints a picture of a country whose military build-up appears worryingly at odds with its stated peaceful intentions. China has deployed 650-730 mobile short-range ballistic missiles (SRBMs) opposite Taiwan and is adding to this arsenal at the rate of 100 a year. Improvements in China's military capabilities, says the report, are helping to shift the military balance in the Taiwan Strait in China's favour.

Although the main focus of China's military modernisation in the near term appears to be preparation for possible conflict in the Taiwan Strait, the Pentagon says, some of China's military planners are looking further afield. China's SRBMs could be deployed beyond the Taiwan theatre. China is also developing

new medium-range systems that will “improve its regional targeting capability”. And similar improvements are being made to intercontinental missiles “capable of striking targets across the globe, including in the United States.”

China's air and naval force improvements would also allow it to engage beyond the Taiwan area. Airborne early-warning and control and aerial refuelling programmes will allow extended operations into the South China Sea, says the report. For now, however, the Pentagon says China's ability to project conventional military power beyond its periphery remains limited. And even in the Taiwan Strait, it does not yet have the military capability to accomplish its political goals.

China's extreme guardedness about what it is actually doing, as well as occasional bellicose outbursts by officials on matters concerning Taiwan, do nothing to soothe the Pentagon's uneasiness. A Chinese general at the country's main defence college, speaking to foreign reporters last week, suggested that China would engage in a nuclear war with America if it intervenes to defend Taiwan. “The Americans will have to be prepared that hundreds...of (their) cities will be destroyed by the Chinese,” he was quoted as saying. Bluff perhaps, and almost certainly hyperbole—the Pentagon maintains that only 20-odd Chinese nuclear missiles are capable of reaching continental America. But hardly reassuring.

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Los Angeles

The darker side

Jul 21st 2005 | LOS ANGELES
From The Economist print edition

Forty years since the Watts riots, blacks are still struggling

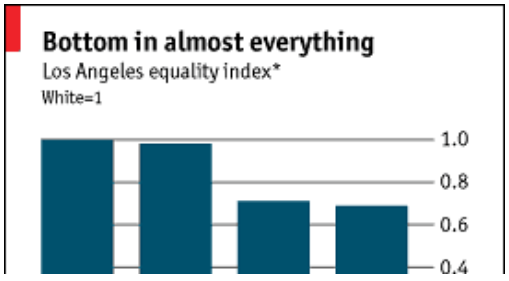
ON AUGUST 11th 1965, a white motorcycle cop in south Los Angeles stopped a black driver he suspected of being drunk. His action sparked a sequence of events that led to six days of race-inflamed rioting, resulting in 34 deaths, more than a thousand injuries and some 4,000 arrests. Forty years on, have the racial inequalities that fed those infamous Watts riots been smoothed away?

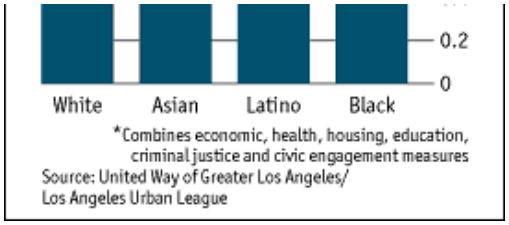
Not nearly enough. According to a study released last week by United Way of Greater Los Angeles and the Los Angeles Urban League, blacks in the LA area fall behind whites, Asians and Latinos on virtually every measure, from homelessness and poverty to graduation levels and life expectancy. They are three times more likely than other racial groups to die from homicide or HIV/AIDS, twice as likely to be victims of violent crime and are the targets of 56% of racial-hate crimes. An astounding 32% of black males born in LA County in 2001 are likely, the study claims, to spend part of their lives in prison, compared with just 6% of whites and 17% of Latinos. “That statistic is horrifying, frightening,” says William Bratton, the (white) police chief of America's second-biggest city. “We cannot accept that. That should not be the future.”

But changing any aspect of blacks' future in LA will be hard. The racial disparities have a long history. Until a court case in 1946 ruled them illegal, race-based housing restrictions imposed after the first world war confined blacks to LA's “Eastside” and south, creating near-ghettos in areas such as Watts, Inglewood and Compton. Even today, there are virtually no black residents—except for the occasional music or basketball star—in Westside areas such as Beverly Hills, Brentwood or Pacific Palisades. Indeed, to achieve full integration with whites, some 74% of the black community would have to move house.

Despite the strenuous efforts of Chief Bratton, relations between blacks and police remain tense. In February, Devin Brown, a black 13-year-old, was shot dead by police while joy-riding in his mother's car in the early hours of the morning; last summer, policemen were filmed arresting an unarmed black man suspected of stealing a car, one of them pummelling him savagely with a heavy torch. For the black community, such incidents revive memories of the police beating of Rodney King in 1991—and of the acquittal the next year of his assailants, a decision that led to riots in which 55 were killed and 2,300 injured. Only 21% of blacks believe the police act fairly most of the time, compared with 46% of Latinos and 60% of Asians and whites.

Demography also tells against blacks. In 1980 they were 12% of the population of LA County; now, though they number over 900,000, they are less than 10%. By contrast, Latinos account for 45% of the area's residents, whites 31% and Asians 12%. A fall in numbers means a decline in economic and political clout. Blacks have especially lost out to the growing Latino community—witness the election in May of Antonio Villaraigosa, LA's first Latino mayor in over 130 years. Put all the economic and social data together and blacks score just 0.69 on the study's “equality index”, compared with 0.71 for Latinos, 0.98 for Asians and 1.00 for whites (see chart).





Is the black community therefore condemned to disproportionate poverty and political irrelevance? Not necessarily. One glimmer of hope for the future is that 94% of black children have health insurance (the Latino figure is 89%) and some 63% attend pre-school, about the same as for whites and Asians and well ahead of the Latino figure of 42%. Another is that blacks score higher than all other groups, including whites, in “civic engagement”, a measure that includes voter registration, participation in the armed forces, union membership and fluency in English.

The trouble is that the civic-engagement measure flatters to deceive. Voting registration does not necessarily translate into actual votes; serving in the armed forces is often a sign of poverty; unions are losing power; and the children of Latino and Asian immigrants will be just as fluent in English. As the study argues, what is really needed are more jobs, especially for ex-convicts, better education, affordable housing and more black male role models (“Magic” Johnson, a basketball star-turned-entrepreneur, comes to mind).

All of which is easier hoped for than achieved. But, as Mayor Villaraigosa puts it, “A great city can't be a shining example with so many left behind.”

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Social behaviour

Chastity's champions

Jul 21st 2005 | WASHINGTON, DC
From The Economist print edition

The battle to purify American sex-lives

Reuters

"JUST between us girls, Washington is an easy place to get laid." That, at least, is the view of Jessica Cutler, a junior congressional aide whose orgiastic online diary has morphed into a popular novel, "The Washingtonienne". It is against this permissive background—Ms Cutler contends that a woman in the nation's capital can "go home with a different man every night of the week" if she wants to—that campaigners for sexual abstinence must struggle to get their message across.

Yet they are winning, says Kristi Hayes, a Washington-based spokeswoman for the Abstinence Clearinghouse, a group that advocates celibacy until marriage and fidelity thereafter. Teenagers, she says, "are always going to get the other message; it's everywhere." Not only do Hollywood and MTV glamorise non-marital sex, but public funding for sex education is skewed against abstinence. For every $12 the other side gets, she complains, advocates of abstinence receive only $1.

But despite these handicaps, the "no-sex" message is getting through. American high-school girls were 33% less likely to get pregnant in 2001 than in 1991. Slightly more than half of this decline was attributable to them having less sex, according to John Santelli of Columbia University. (The rest was due to more competent use of contraceptives.)

The good news has enthused a campaign that was already broad-based and energetic. The Abstinence Clearinghouse shares ideas with 4,000 affiliated groups, some of which urge youngsters to abstain, while others lobby their senators to vote for more money for such urgings. The campaign has some catchy T-shirt slogans ("Pet your dog, not your date") and sells underpants with amusing "Stop" signs on them. It mixes sound social science ("Married people live longer, are healthier [and] are happier") with alarmist claptrap ("There is no scientific evidence that condoms prevent the transmission of most sexually transmitted diseases").

Chastity has its challengers. The Washington state chapter of NARAL Pro-Choice America (formerly the National Abortion and Reproductive Rights Action League), for example, recently advertised a "Screw abstinence" party. More seriously, though no one disputes that abstinence protects you from sexually transmitted diseases, many doubt the wisdom of promoting abstinence and nothing else.

It is true, as the abstainers often point out, that there is no such thing as safe sex. But there are degrees of risk. If you have sex without a condom with scores of prostitutes, you will probably catch something nasty. If you have only one pre-marital partner and you always use a condom, you probably won't.

Against the risk of disease, a Godless degenerate might argue, must be weighed the fact that many people find sex quite enjoyable. Individuals may have different preferences as to how much risk they are prepared to bear in pursuit of the pleasures of the flesh. Since most Americans are no longer virgins when they get married, one must assume that most find the risks associated with a certain amount of pre-marital tomfoolery to be acceptable.

This should not be surprising. A typical American boy hits puberty in his early teens but does not marry until he is 27. (The median age for women is 25.) Remaining chaste for the entire decade during which sexual desire is at its peak requires extraordinary willpower. For most youngsters, the fear of disease is

not a sufficient motivation.

Religious faith might be, however, which leads to the odd thing about some of the abstinence campaigners. The Abstinence Clearinghouse insists that it is a secular organisation, which is helpful if it wants the government to fund its cause. It promotes abstinence until marriage because this makes people healthier and happier, says Ms Hayes.

What about homosexuals, though, who cannot legally marry in any American state bar Massachusetts? On health grounds, one would surely favour strict monogamy for gays. But no. For them, says Ms Hayes, “We promote the healthy message of abstinence.” Period.

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Employment law

When sex is unfair

Jul 21st 2005 | LOS ANGELES
From The Economist print edition

A new ruling to spice up office politics

CALIFORNIAN employers beware. The state Supreme Court has just ruled that an unwelcome sexual advance is not the only evidence that a worker has suffered sexual harassment. So, too, is favouritism shown to a fellow-worker because she (or he) is sleeping with the boss.

The ruling has its origins in some remarkably steamy goings-on in California's women's prisons. Two prison employees, Edna Miller and Frances Mackey (who has since died), complained that Lewis Kuykendall, a prison warden, was unfairly favouring three other women with whom he was having affairs between 1991 and 1998. One of the warden's girlfriends, Cagie Brown, boasted to Ms Miller that the warden would have to promote her or she would "take him down" by naming "every scar on his body". The same girlfriend, Ms Miller said, had assaulted her and was also involved in a lesbian affair with the prison's deputy warden.

All this, said the court—disagreeing with two California lower court rulings, as well as many judgments in other states—amounted to sexual harassment. It created an atmosphere demeaning to women because it conveyed the message "that managers view women as 'sexual playthings' " and that "the way required for women to get ahead in the workplace is by engaging in sexual conduct with their supervisors or the management."

Whether the court's definition of sexual harassment will open a flood-gate of lawsuits in litigation-addicted California remains to be seen. Employers will certainly be keen to comply with a new law requiring companies with 50 or more workers to give two hours of instruction to supervisors every two years on what constitutes sexual harassment. As Arthur Silbergeld, a leading Los Angeles employment lawyer, notes, "In private enterprise, this kind of claim kills you."

Meanwhile, there is a certain irony in this week's ruling. Much of it, the court said, was based on a 1990 policy statement from the Equal Employment Opportunity Commission. That statement was approved by the EEOC's then chairman, and now Supreme Court justice, Clarence Thomas—famously accused during his confirmation hearings of sexually harassing Anita Hill.

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This sporting life

Muddy waters

Jul 21st 2005 | GUNNISON, COLORADO
From The Economist print edition

Should paddlers be allowed to float through private land?

AS THE co-owner of one of Colorado's largest dude ranches, Brad Roberts is annoyed. “Trespassers” regularly float down the Taylor river, which runs through a mile of his property, disturbing his fishermen and scaring the fish. On other parts of the river, his guests like to go rafting themselves. But earlier this month the trespassers, otherwise known as river-rafters, struck two fishermen in the water. A personal-injury lawsuit could be brewing. “I'm going to stop them,” says Mr Roberts, “because I have no other choice.”

The paddlers tell a different story. “They felt the fishermen made no attempt to move and in fact lunged at our boat,” says Matt Brown of Scenic River Tours, the rafting company (who did not witness the incident himself). The sheriff is investigating. The rafters say they also contend with signs, threats and boulders put across the river. These improve the habitat for trout, but not for paddlers.

Whatever the rights and wrongs on the Taylor, plainly little love is lost between some rafters and landowners in the state. The issue is property. Virtually all Colorado's “floatable” rivers run through a patchwork of government and private land. In most other states, rafters are allowed the run of the rivers. But Colorado law is unclear. Landowners plainly own the banks and bed of the river, but rights to the water are fiercely disputed.

In 1979 the Colorado state Supreme Court found that the public “has no right to the use of waters overlying private lands for recreational purposes without the consent of the owner” and convicted three rafters of criminal trespass on private land. But in 1983 the attorney-general, citing a 1977 action by the legislature, stated in a non-binding opinion that floating on rivers through private property while staying off the banks or beds “does not constitute trespass within the provisions of the criminal code”.

To muddy the waters further, all this leaves open the question of civil (as opposed to criminal) trespass. Can rafters be pursued for civil damages when they cross the property line? On the Lake Fork of the Gunnison river, not far from the Taylor drama, one rafting company was hit with a civil trespass suit in 2001, but went out of business before the courts could resolve it. (A fence now runs across the water on the Lake Fork.) And what about all the times that rafters get stuck on the rocks? Mr Roberts grumbles that his crew had to rescue a raft of trespassers only last week.

The issue bubbles up all over Colorado. On the Arkansas river, America's most popular rafting spot with more than 200,000 paddlers each year, landowners are “becoming more protective or assertive about their property rights”, says Greg Felt of ArkAnglers, a fly-fishing outfit. He attributes the tensions to the rising number of float-fishers on the river; some landowners, fishermen themselves, may be keen to protect their fish stocks.

Both sides raise points about liability. From the rafters' perspective, stringing fences or other obstacles across the river could cause injury. Landowners worry about what happens if a rafter (who has probably signed liability waivers with the rafting company) gets hurt on their property. Lawmakers, the courts, or the people (with a ballot initiative) need to resolve this water fight—perhaps when they get back from their summer on the rivers.

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The death penalty

Humans make mistakes

Jul 21st 2005 | ST LOUIS
From The Economist print edition

Was Larry Griffin wrongfully executed?

AROUND 9.30 on the night of June 20th 1995, Larry Griffin lay down on his prison bed to sleep. He was woken at three the next morning to be told that his last-minute appeals against his death sentence for the murder of Quintin Moss, 15 years before, had been unsuccessful. The death warrant was read to him; he was then taken a short distance to the execution chamber and given a lethal injection. He made no final statement. His death, it seemed, was the end of the matter.

Ten years later, however, his execution is once again news. After a private investigation sponsored by the NAACP, a black lobby group, into Moss's murder, Jennifer Joyce, the St Louis circuit attorney, has taken the unprecedented step of officially reopening the case to determine whether Griffin was wrongly put to death while the real killers escaped.

Moss, a 19-year-old drug-dealer, was shot dead on a street corner in the Stroll, a run-down, all-black neighbourhood of St Louis. His attackers were driving by in a car. Just down the street, Wallace Conners was struck by a bullet in the buttocks.

Police quickly found the car and the weapons used in the shooting. A police officer recalled seeing three black men coming out of a nearby drug house, one of whom was wearing a distinctive baseball cap similar to one found in the murder car. Another witness claimed to have seen the whole incident. Six months earlier, Moss had been charged with the murder of Griffin's brother Dennis, but had been released for lack of evidence. Police then arrested Larry Griffin for Moss's murder four days later.

At the trial, the police officer identified Griffin from a photograph and the eyewitness described the shooting. Griffin was convicted and sentenced to death. Over the next 15 years, he protested his innocence and appealed his sentence. Only after his execution did the story start to unravel. The eyewitness (who said he had actually taken Moss's pulse at the scene) turned out to be Robert Fitzgerald, a Bostonian and professional criminal whose testimony against organised crime figures in Boston had become so unbelievable that the government had stopped calling him. The only person who claimed to have seen Fitzgerald in the Stroll that day, before the shooting, was a second police officer, who later renounced his testimony.

Wallace Conners, the second victim and a friend of Griffin's, was briefly questioned by the police in hospital but was never called to give evidence at the trial. He fled St Louis for his life. On his return, he was adamant that Griffin was not in the car and did not shoot anyone that day.

The possibility that the state executed an innocent man has shocked Missouri. Its courts are neither prodigal with death sentences, as Texas is, nor indifferent to incompetent defence lawyers, as in Illinois (where the then governor, George Ryan, commuted the sentences of every prisoner on death row in January 2003). The circuit attorney's investigation, which will take several months, may lead to reforms in Missouri's criminal-justice system.

It may also bring national changes. The Griffin case has become a focal point for opponents of the death penalty, who use it as their best example of how human beings make mistakes. Proposals in Congress to either, depending on one's point of view, streamline or gut the federal review of state-imposed capital sentences may hinge on Griffin's experience. Not that such a change will make any difference to him now.

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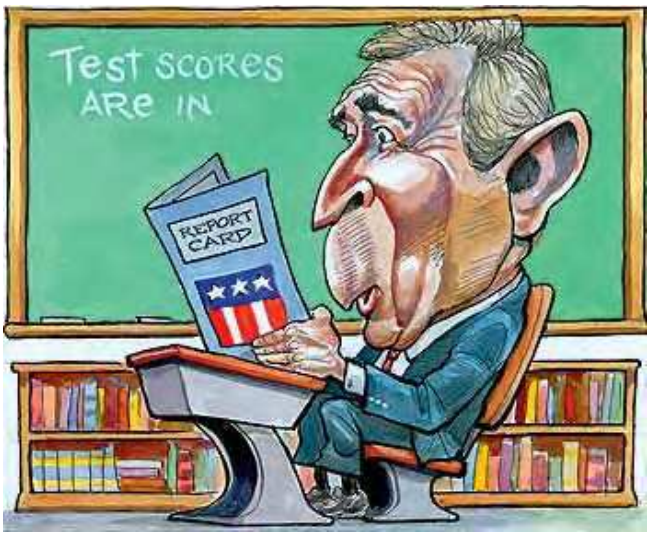
Lexington

Now for the good news

Jul 21st 2005
From The Economist print edition



George Bush's education reforms may be working

Get article background

THERE is no shortage of bad news for the White House these days. The Washington press corps is on death watch outside the house of Karl Rove, George Bush's chief adviser, and the car bombs continue to explode across Iraq. Yet last Thursday also saw some rare good news. It is buried in a pretty obscure place, in a report published by the National Assessment of Educational Progress. But it has some big implications—not only for Mr Bush's much-maligned claim that he is a different sort of conservative, but also for the future health of American society.

The National Assessment of Educational Progress has been periodically testing a representative sample of 9-, 13- and 17-year-olds since the early 1970s. This year's report contained two striking results. The first is that America's nine-year-olds posted their best scores in reading and maths since the tests were introduced (in 1971 in reading and 1973 in maths). The second is that the gap between white students and minorities is narrowing. The nine-year-olds who made the biggest gains of all were blacks, traditionally the most educationally deprived group in American society.

The education establishment—particularly the two big teachers' unions—were quick to pooh-pooh the result. The critics argued that Mr Bush cannot take credit for the gains because his chief educational reform, the No Child Left Behind (NCLB) Act, had been in place for only a year when the tests were administered. They also pointed out that the gains are not universal. The results are mixed for 13-year-olds and 17-year-olds. The reading skills of black and Latino 17-year-olds were nearly identical to those of white 13-year-olds.

All this is true, but self-confounding. Mr Bush's act may be very new. But the ideas that lie behind it—focusing on basic subjects such as maths and reading and using regular testing to hold schools accountable—have been widely tried at the state level since at least the mid-1990s. Mr Bush deserves credit for recognising winning ideas thrown up by America's “laboratories of democracy” and then applying them at the federal level. Thirteen- and 17-year-olds may not have shown as much improvement as nine-year-olds. But that is precisely because reformers have focused their energies on the earlier grades.

These results matter. In domestic policy Mr Bush has put more emphasis on education reform than on anything else except tax cuts. He first introduced himself to the American public as an educational reformer who had pioneered both testing and accountability in Texas. In his first year in office he teamed up with Ted Kennedy (he was then “a uniter, not a divider”) to push his education reforms through Congress. On the morning of September 11th 2001 he was famously reading “My Pet Goat” to a group of Florida schoolchildren. If Islamic terrorists hadn't changed the world that morning, Mr Bush might have been remembered mostly as an education president.

Mr Bush sold himself to the American people as a new kind of conservative. From the Goldwater revolution onwards, American conservatives defined themselves by their hostility to government. They were particularly keen on closing down the Department of Education. But Mr Bush argued that active government was quite compatible with conservative principles, provided that it was active government guided by sensible values and disciplined by internal and external competition. Mr Bush increased the Department of Education's funding by a staggering 40%, more in percentage terms than the increase given to the Pentagon. But he justified the extra spending on the ground that the department was introducing testing, transparency and accountability. The act not only requires states to measure the general progress of their children. It also requires them to disaggregate their data to reveal the performance of specific groups such as Latino children or poor children. The aim is to prevent states from boosting the overall performance of their children while leaving vulnerable groups behind.

A challenge for the Democrats

Mr Bush's embrace of the Department of Education has caused severe friction on the right. Free-market purists have criticised him for abandoning market solutions in favour of central planning. And state education authorities have criticised him for imposing a one-size-fits-all solution on the education system. But Mr Bush can now reasonably reply that his policies are beginning to have the desired effects.

They need to have. The poor quality of America's schools is arguably the biggest threat to America's global competitiveness, a threat that will only grow as the best brains from India and China compete in an ever-wider array of jobs. And the growing gap between the educational performance of the rich and the poor, and between the majority and minorities, is arguably the biggest threat to America's traditional conception of itself as a meritocracy. The test results are thus doubly good news. They suggest that America may be able to improve its traditionally dismal educational performance. And they suggest that sharpening up schools can especially help minority children.

These results pose a new challenge to Mr Bush. He needs to move quickly to extend his reforms to America's high schools, now clearly exposed as the weakest link in the education chain. But they pose even bigger challenges for the Democratic Party. Democrats were once champions of education reform: Bill Clinton first attracted national attention with his reforms of schools in Arkansas. But since the passage of NCLB they have increasingly sided with an education establishment that is bent on defending the status quo from inconvenient reforms. This is surely both a mistake and an abuse of power. For it is now clear that at least some of those reforms offer a much better start in life to America's children, particularly the poorest.

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Colombia

Between peace and justice

Jul 21st 2005
From The Economist print edition

Reuters

The government tries to persuade sceptical outsiders that it is not allowing death squads to get away with murder—or force their way to political power

FOR three long days in February 2000, a group of some 300 of the right-wing vigilantes known as paramilitaries inflicted a reign of terror on the small town of El Salado, in the Montes de María hills near Colombia's Caribbean coast. They killed at least 36 people, having tortured some of them and raped women. It was one of the most horrific incidents among the many acts of violence that Colombia has suffered in recent decades. Last week, the paramilitary group involved handed over their arms to the government's peace commissioner and gave up their self-declared war against the FARC guerrillas and civilians alleged to sympathise with them.

Whether or not those behind El Salado and other similar massacres will receive appropriate punishment is a matter of great controversy between President Álvaro Uribe's government and its critics at home and abroad. Debate centres on the Justice and Peace Law, approved last month by Colombia's Congress. It sets a framework for the treatment of paramilitary leaders—and in the future, it is hoped, for left-wing guerrilla leaders—accused of crimes against humanity. To the government, it represents a reasonable compromise between peace and justice. To human-rights groups, it is a charter of impunity that will provide neither.

These arguments echo beyond Colombia. Earlier this month, Mr Uribe travelled to Spain and Britain to seek support for the law; next month he will meet George Bush. The underlying issue is whether countries can win legitimacy for their own, messy deals to end internal conflicts in an era of increasingly rigorous international standards regarding the treatment of crimes against humanity. In that respect, the Colombian case may provide a precedent for conflict resolution elsewhere.

Colombia's conflict is an especially complex one. The country has three illegal armies: the left-wing FARC, with perhaps 17,000 troops; the ELN, a much smaller guerrilla group; and the paramilitaries of the (not so) United Self-Defence Forces of Colombia (AUC), with perhaps 20,000 fighters. The FARC and, especially, the AUC have close links to the drug trade; human-rights groups accuse the army of aiding the AUC, though other analysts say that such links are the exception rather than the rule. The AUC has been responsible for a slight majority of civilian deaths.

Democratic security

Since taking office in 2002, Mr Uribe has expanded the security forces and driven the FARC from many of its previous strongholds. This “democratic security” policy has weakened the paramilitaries' raison d'être. In 2003, the government began talks with most of the AUC's leaders. So far, that has led some 6,000 to demobilise *en bloc*; the government hopes the remainder will by December. In addition, 7,500 individual guerrillas or paramilitaries have deserted.

Provided no charges are pending against them, they are pardoned and, in theory at least, given help to return to civilian life. The Justice and Peace Law is aimed only at those who are accused of crimes against humanity. Around 200 AUC members may fit that category, according to Sabas Pretelt, the interior minister.

Under the law, they must give a voluntary account of their crimes and forfeit illegally acquired goods, such as lands bought with drug money. A special unit of 20 attorneys has 60 days to investigate; within a further ten days, a court brings charges. If found guilty, the court imposes a normal sentence (up to 40 years for murder) which is then commuted to an “alternative penalty”. This involves up to eight years' confinement in a special facility—perhaps a prison farm, says Mr Pretelt.

If the accused is later found to have failed to declare a crime, the alternative penalty can be raised by 20% “provided the omission is not intentional”. If it is, the full normal sentence is imposed. The law also gives victims the right to participate in the judicial process; forfeited assets are to be used to compensate them.

Critics point to several glaring weaknesses. The main one is the lack of a binding requirement for a full confession of all information regarding the AUC's crimes, structures, wealthy backers and possible army collaborators. There is no Truth Commission, of the kind pioneered by El Salvador and later copied by South Africa. Combined with the 60-day deadline for investigations, this means that “most crimes will not come to light,” according to Marcelo Pollack, a researcher at Amnesty International. Proving that an omission is intentional is “almost impossible”, he adds.

Amnesty and others say that the law will not prevent paramilitaries being recycled back into the conflict as private security guards or army informers. Nor, they fear, will it prevent the paramilitaries from using their war chest and intimidation to continue to muscle their way into politics.

Officials counter that the law is the fruit of a political negotiation in the midst of continuing conflict, and that it represents an advance on many past peace processes. They want to apply it to any future talks with the FARC, whose leaders reject any punishment. “This law is not a capricious law. We've looked at international laws and treaties and have observed our constitution and our country's history,” Mr Uribe told *The Economist*. “It's the first time in the many peace processes my country has had that we have introduced the elements of truth, reparation and justice.” He insists that AUC chiefs will not be able to get away with intentional omissions in their statements because the government “has made visible those involved in atrocities.” He adds that the law imposes no time limit on judging undisclosed crimes.

Many Colombians accept that while the conflict continues, a truth commission is impractical and that compromises were necessary. Even so, argues Sergio Jaramillo of the Ideas for Peace Foundation, an NGO, the government missed an opportunity to use plea-bargaining to reveal the truth.

Despite its obvious flaws, will outsiders back the law? A decade ago, they would simply have welcomed a step towards peace. No longer. The International Criminal Court is watching closely. Yet Colombia, which is a democracy whose violence is fuelled by outsiders' demand for drugs, has a stronger case than most for insisting on its right to strike its own peace deals.

Whether or not that right is respected may depend on two things: whether the government can rally public support behind the law and, especially, on its implementation. Mr Uribe says that his security policy has created the conditions where the law can be enforced. There are other levers too: several AUC leaders could still be extradited to the United States on drugs charges if they fail to toe the line.

The United States has given Colombia some $3.5 billion in military aid since 2000. But many in Congress criticise the law, and are reluctant to finance the demobilisation. Mr Uribe has also asked the European Union to monitor the process. Whatever its qualms, the EU might do well to accept. “If everyone looks the other way, it will be a terrible mess,” says Mr Jaramillo. But rigorous implementation of the law by a determined judiciary, backed up by a critical media and outside aid and verification, just might mean that Colombia becomes a more peaceful place.

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Argentina

Another country

Jul 21st 2005 | BUENOS AIRES
From The Economist print edition

The economic collapse is history, but not the scars it left

Reuters

The informal economy blooms

NO MATTER where one goes in Argentina these days, evidence of the country's remarkable economic recovery is hard to avoid. In the northern Patagonian province of Rio Negro, the autumn apple crop has given way to hordes of skiers; near the Brazilian border, Chilean-owned factories churn out paper pulp; and in the beach resorts south-east of Buenos Aires, builders race to finish new homes in time for the holiday tenants who will flock there next January. Since its collapse in 2001-02, Argentina's economy has grown by a quarter. According to government estimates, it has finally surpassed its previous peak of May 1998. In another sign that the worst is over, on July 18th the government issued dollar bonds for the first time since its massive debt default of 2001.

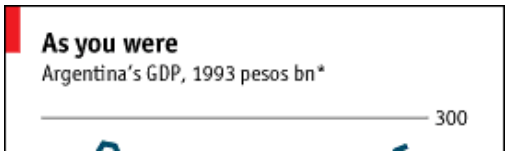
But while the economy may have recovered its former size, it is different in many other ways. Some of the imbalances of the 1990s have been fixed: budget deficits have turned into surpluses; devaluation has ignited exports; and the public debt has been restructured. “It's a less risky, less volatile country than it was,” says Miguel Braun of CIPPEC, a Buenos Aires think-tank. Yet many ordinary Argentines see a country that is more unequal, less prosperous and less economically secure than it was seven years ago.

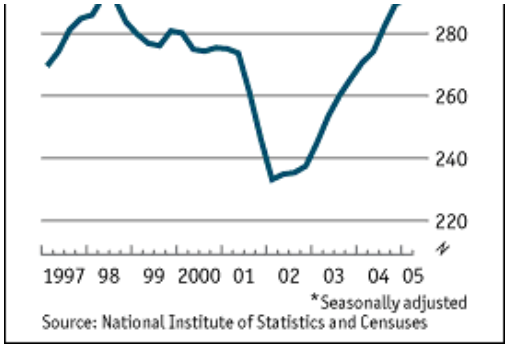
Devaluation in 2002 prompted a temporary spike in inflation, and a lasting increase in food prices. As unemployment surged to 25%, real wages fell by an average of 30%. By June 2002, 56% of Argentines had fallen below the official poverty line. But as the economy recovered, so did employment. In the second quarter of 2004, each percentage point of output growth was matched by a full percentage point of new jobs. Unemployment has declined to 13%—or 16% including those on make-work programmes—and poverty to 40%.

Many of the new jobs are in the informal sector: Argentina has the same number of formal-sector employees today as it did in 1980, while the number of informal workers has doubled. Such jobs pay less. Real wages in service jobs are still a quarter below their pre-crisis level. The overall share of wages in GDP has declined by 15%.

Wealthier Argentines have fared less badly: many of those who had withdrawn their dollar savings before a bank freeze poured them into property. That fuelled a construction boom. The rise in informal jobs has also contributed to inequality. According to FIEL, another think-tank, the richest 10% of workers now earn 33 times as much as the poorest 10%, compared with 26 times in 1999.

Devaluation has made travel abroad prohibitive for all but the wealthiest. Home ownership has become harder, too, since property is still priced in dollars. Since banks are weighed down with government debt, they lend little: mortgages and consumer credit are scarce. Reminders of poverty are still everywhere, such as the nightly invasion of some 8,000 *cartoneros* who comb through the capital's rubbish. Many are teenagers or children.





Some of what workers lost has been gained by the state. The public sector now accounts for 27% of GDP, compared to 22% before the collapse. It has yet to turn that into better schools and infrastructure, partly because it must run a surplus to pay its debts. Surprisingly, perhaps, the leftish government has been stingy with its own workers: had it extended to the public sector the same wage rises it ordered for private-sector workers, it would have increased public spending by 3% of GDP.

Profits, too, take a larger share of the economy than in the past. But investment, though higher than it was, remains too low to sustain rapid growth once existing capacity is fully used. The problems of the banks, the government's disrespect for contracts and hostility to foreign firms discourage big private investments.

Inevitably, the pace of recovery is slowing. Now, for each percentage point of growth, jobs only increase by half as much. Unless companies are encouraged to invest more, and unless the government improves education and training, the social divide will continue to worsen. Inequality, job insecurity and low investment are hardly problems unique to Argentina. As it slowly becomes what the government likes to call “a serious country”, Argentines may find that their problems increasingly resemble those of their Latin American neighbours.

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Canada

Lessons from a lock-out

Jul 21st 2005 | OTTAWA
From The Economist print edition

Hockey players are less than indispensable

EVER since members of a British naval expedition picked up sticks and ventured on to the Arctic ice to play Canada's first recorded game of hockey in 1825, Canadians have embraced the sport with passion. Along with the health service, hockey is a cornerstone of Canadian identity. That may explain why the expected end of a ten-month dispute which shut down the National Hockey League (NHL) was greeted by the media as if it were the Second Coming.

Fans were forced to endure a winter without the NHL after owners of the 30 clubs (six in Canada, 24 in the United States) locked their players out. Citing losses totalling $273m, club owners demanded salary cuts. The players' union finally caved in last week and agreed to a deal which is reported to include not just capping each team's total wage bill at $39m, but also a 24% cut in current salaries. The result of a vote by players on the deal was due to be revealed on July 21st. They were expected to accept, rather than risk a second lost season.

The new contract is said to include rule changes, too, to liven up games with smaller pads for goalies and penalty shootouts. Hockey certainly needs to do something to woo back fans. The public showed little support for the millionaire players, whose salaries have risen by an annual average of 16.5% over the last 15 years and swallowed 75% of league revenues. Under the deal, that should fall to 54% and reverse the losses suffered by 19 clubs in the 2002-03 season.

Contrary to predictions, the economic impact of the lock-out was smaller than the psychological hurt. (Both were negligible in the United States, where the fan base is small.) The howls of doom last winter came chiefly from those working in or near the arenas—and 25 workers who lost their jobs at a puck-making plant in Quebec. The players were largely silent. More than half decamped to European (especially Russian) teams; others played for minor league teams, such as the Manitoba Moose.

According to an estimate by Statistics Canada, the lock-out cost about C$350m ($290m)—peanuts in a C$1 trillion economy. Canadians quickly found other ways to spend their ticket money. Therein lies a warning to the league and its players: hockey might be Canada's official winter sport, but it is not the only game in town.

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The Panama Canal

Tight squeeze

Jul 21st 2005 | PANAMA CITY
From The Economist print edition

Reuters

Expansion plans hit political problems

AT 32.5 metres wide and 80,000 tonnes dead-weight, the largest vessels able to traverse the Panama Canal are not big by today's standards. Some container ships are twice as big as the “Panamax” limit, and oil tankers five times as large. Even so, the canal is operating close to capacity. But the share of world sea cargo that passes through it has dropped from 5.6% in 1970 to 3.4% in 2004, according to Pablo Armuelles of the University of Panama's Institute of Canal Studies.

The Panama Canal Authority (PCA), an autonomous body that has operated the waterway since the United States handed it over to Panama in 1999, is trying to squeeze the most from it under a modernisation plan which aims to boost capacity by 20% compared with 1997. New locomotives to guide ships through the narrow locks and better lights have improved reliability, according to Alberto Alemán, the authority's head. The Gaillard Cut, a bottleneck, is being straightened and deepened by an extra metre. That will help container ships, which sometimes have to offload some cargo during the dry season.

This matters: in 2002, container traffic became the canal's largest user. Containerisation has also boosted Panama's use as a transshipment point. To handle this, three Atlantic ports are being expanded, while there are plans for a fourth on the Pacific side. Ricaurte Vásquez, the finance minister, expects transshipment traffic to double in the next four years.

The PCA wants to achieve a similar increase in canal traffic over the next two decades. To do so, it is due to present in a few months' time a plan to widen the waterway by building new locks which can handle ships about twice as big as Panamax vessels. But this plan has been a few months away for about a year.

The hold-up is because Panama's constitution requires widening to be put to a referendum. But the government of Martín Torrijos, president since September 2004, is highly unpopular. That is because of a much-needed reform of the near-bankrupt public-sector pension scheme. Faced with protests, the government has suspended implementation of the reform for 90 days. That has also held up the referendum, originally planned for November.

The government hoped that if it first got its own finances in order, the PCA would be able to borrow the funds for expansion more cheaply. This could cost $5 billion-11 billion, according to Mr Armuelles. Some Panamanians worry that enthusiasm for canal expansion might be outweighed by a desire to punish the government. For now, expansion is as stuck as a post-Panamax ship in a canal lock.

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Palestine

Who's in charge?

Jul 21st 2005 | GAZA
From The Economist print edition

Getty Images

As a recent breakdown of the ceasefire showed, the next intifada could be by Palestinians against their own government as much as against Israel

THE walls are black with soot, the sofas burned down to their skeletal elements, the computers and telephones melted into cartoon caricatures of themselves. Compared with the battles that raged before it, the torching this week of the Arabic Centre for Research and Study, a small office in Gaza linked to Hamas, was minor. But it was an unusual symptom of how the conflict between Hamas, the Palestinians' main Islamist party, and the Palestinian Authority (PA), run by the secular-minded Fatah party founded by the late Yasser Arafat, might spread.

“All Palestinians benefit from our publications,” says Muamin Basiso, one of the centre's staff, fingering charred pamphlets with titles such as “The Palestinian Resistance and the Problems of Adapting Military Action”. Who provoked whom and why may remain fuzzy. The initial spark was last week's suicide-bombing by Palestinian Islamic Jihad (PIJ), a smaller militant faction, that killed five Israelis in the coastal town of Netanya. Unlike Hamas, which has largely stuck to the ceasefire, PIJ has made several terror attacks. Many say Iran funds and instructs it; no, says Khader Habib, a PIJ spokesman in Gaza: it merely responds when provoked.

Israel reacted with raids in the West Bank, killing a Palestinian policeman and a PIJ man. Both Hamas and the al-Aqsa Martyrs' Brigades, a group loyal to Fatah, then fired rockets from Gaza into Israel. Whether by coincidence (says Hamas) or as a deliberate provocation (says the PA), they came as Mahmoud Abbas, the Palestinian president, was visiting Gaza.

PA forces tried to go after Hamas but were hampered by hundreds of civilian Hamas backers, who see the PA as merely doing Israel's dirty work, so gave cover to the fighters. One of the worst internecine battles of recent years claimed two Palestinian lives, wrecked three PA armoured cars and put 30-plus people in hospital. Israel then resumed its policy of “targeted assassinations”, killing several Hamas men in air strikes and one with a sniper.

Mr Habib thinks Israel may have meant to stoke the fratricidal conflict but may unwittingly have helped to dampen it instead. Though clashes continued both on the ground (two research centres tied to Hamas were burnt down) and in the media, and Israel killed two more PIJ men in the West Bank, by the evening of July 19th appeals to “national unity” had prevailed and both sides announced a fresh truce.

How long will it last? Whether or not Israel's raids were what made Hamas join the fray last week, it has

plenty of its own reasons for a showdown with the PA. When 13 militant factions agreed to the ceasefire, it was in return for Mr Abbas's promises to root out corruption in the PA, hold elections and keep his security forces off the fighters' backs. Yet many of Arafat's cronies have stayed on. Legislative elections due this month, in which Hamas expected to do well, were postponed because of Fatah infighting over how to choose candidates. And the PA, prodded by Israel and other countries, has made several half-hearted moves against recalcitrant fighters, usually after they attack.

But its impotence is increasingly obvious. In the West Bank this is largely because Israel still controls most towns, meaning that the PA forces cannot carry arms there, and has held up some supplies of materiel. In Gaza, as recent events show, it is because the people support Hamas; not that all prefer it to Fatah, but almost all feel that without such “resistance” groups they are defenceless against Israel. Trying to disarm the militants, as Israel insists, therefore makes the PA weaker and Hamas stronger. Which is why Hamas, having made that show of strength, can now afford to scale back the violence.

Hamas has already convinced Palestinians that its violent campaign during the four-year *intifada* that ended at the start of this year prompted Israel's decision to evacuate the Gaza settlements next month. (This week a huge anti-evacuation protest by settler sympathisers fizzled in the face of an even bigger Israeli police and army presence.) If the PA cannot prevent looting and land invasions in the evacuated settlements, it will look weaker still. By January, when the legislative elections are expected, Fatah may be in such tatters that Hamas may sweep the board.

For now, Egypt, which wants a calm Gaza on its doorstep, has sent mediators for talks between the militants and the PA. Condoleezza Rice, the American secretary of state, was due to visit this week to urge restraint on Israel. With any luck, calm will prevail for a time. But if the *intifada* recommences, the PA will now be more reluctant than ever to crack down.

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Iraq

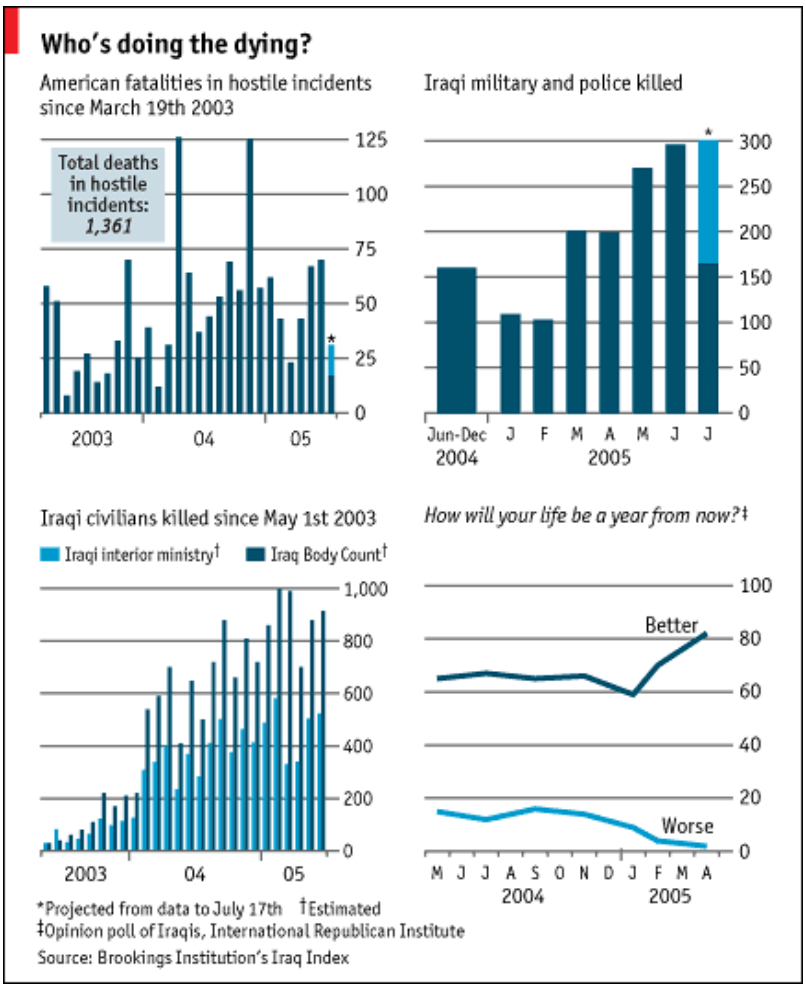
Worse—and maybe better

Jul 21st 2005 | BAGHDAD
From The Economist print edition

Despite a recent spate of horrors, the picture is mixed

A RECENT spate of particularly lethal suicide bombs—on July 16th one blew up a petrol tanker near a mosque in the mainly Shia town of Musayib, south of Baghdad, killing at least 90 civilians—makes things look even worse than they are. Not that they are rosy. But there is no sign yet of an impending "tipping point"—either in favour of the insurgents, who seek a return to Sunni Arab dominance through a sectarian war leading to the ignominious departure of the American-led forces, or in favour of the western allies, who want to split the insurgency, beef up the new Iraqi army and police so that they can take over the main burden of security, hold another set of elections under a new federal constitution, and then beat a dignified retreat within the next few years or so.

In fact, the rate of killing in the past year has been going up and down (see charts). For sure, the overall trend, year on year, is up. But so far this year it has levelled off. The violence ebbs and flows. The week before the recent spate of car bombs was the quietest since the new government took office at the end of April. Spikes of violence tend to occur during set-piece events—for instance, the retaking of the rebel stronghold of Fallujah last November, the general election at the end of January, and the installation of a new government in late April. Then the killing rate has tended to come down again.



As parliament's constitutional committee gets close to agreeing to a new constitution and then puts it to a referendum—all being well—in October, a new spike of violence may be expected. In order not to let the insurgents gain momentum, the committee is said to be determined to meet its mid-August deadline, though the temporary constitution allows for a six-month extension. It may even produce a document ahead of time, early next month.

Most strikingly, the death rate for Iraqi civilians has gone up more steadily. Iraq Body Count, a diligent American-British monitoring group that was against the war to oust Saddam Hussein, said this week that nearly 25,000 civilians had been killed in the two years since the invasion by American forces. They, it reckons, caused 37% of those deaths, a third of them in the three weeks of the actual invasion, when bombs and missiles rained down on Baghdad. Since then, the insurgents, “unknown agents” and (most culpable of all) criminal gangs have been responsible for most of Iraqis' violent deaths.

Though foreign Islamists, such as Abu Musab al-Zarqawi, a Jordanian who proclaims a link with al-Qaeda, catch the headlines and perpetrate many (maybe most) of the grisliest acts of violence, such as beheadings and suicide-bombings, most analysts put their number at 5-10% of the insurgents, who, according to the American army, add up to about 15,000 to 20,000 fighters. It is unclear whether more Iraqis are becoming suicide-bombers.

In any event, the country's revamped security forces have been especially hard hit in the past year, partly because their number has risen dramatically, from around 30,000 in July 2004 to some 152,000 by March this year. Recruiting centres and queues have been favourite targets. But the death rate for the American forces and their allies has actually gone down sharply since the peaks of November, when 125 Americans died in action. In March, 23 were killed by insurgents; in June the tally was 70; if this month's current rate is constant, it will be around 30.

But a further, more ominous, feature of the fighting is that it is taking on a more sectarian hue. More recently, Shia gatherings—weddings, funerals and crowds milling around outside mosques—have become particularly vulnerable. In response, the killing of prominent Sunni civilians, such as their clergy, has increased. Many Shias and Sunnis living in districts where they are a minority have moved out. Some people in Baghdad say a low-level civil war has already begun.

Some Shia members of parliament, casting doubt on the effectiveness and loyalty of police and army units, have been demanding a wider call-up of neighbourhood militias. Most peace-minded Sunni Arab politicians, for their part, fiercely oppose such an idea. They also say, gloomily, that Iran is meddling more than before, egging on the government's two main Shia parties, the Supreme Council for Islamic Revolution in Iraq (SCIRI) and the Dawa (“Call”) party, to let their militias off the leash. In particular, they accuse SCIRI's militias, the Badr Brigades, of sectarian murders and of torturing Sunni detainees.

But the political mood may be improving, despite a hiccup this week due to the murder of two peace-minded Sunni Arabs: Mijbal Issa was one of 15 co-opted on to the 55-strong drafting committee; the other was one of ten Sunni Arab observers on it. Friends of both men blamed Shia militiamen, not Sunni rejectionists, for their deaths. Their Sunni Arab committee colleagues said that, in protest, they were temporarily withdrawing.

The drafters, in any case, have been beavering away. The shape of Iraq's federal structure is still at issue. So is the degree of Islam's influence over the law. Women's groups have expressed worry about some clauses leaked from the emerging draft. And several of the thorniest questions, such as where the disputed province of Kirkuk fits into the federation and how to disburse the country's oil revenue, may be addressed in generalities and, in effect, set aside. “Everything can be deferred until judgment day if we get consensus on a draft,” says Adnan al-Janabi, another Sunni Arab on the committee.

More hopefully, out of Iraq's 18 provinces, only the four including Baghdad and surrounding it are relentlessly bloody. No less hopefully, the leaders of the newly dominant Shias, who comprise some 60% of Iraqis to the Kurds and Sunni Arabs at about 20% apiece, have so far refused to be drawn by the overwhelmingly Sunni Arab insurgents into a sectarian tit-for-tat that could presage an all-out civil war. In particular, Grand Ayatollah Ali al-Sistani, Iraq's most influential Shia cleric, has restrained the angriest of the Shia militias. And even in the bloodiest provinces the mayhem is at least not worsening. “It's no more pear-shaped than it was six months ago,” says a hardened foreign observer in Baghdad. “Maybe slightly less so.”

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Guinea

Bad government, bad neighbour

Jul 21st 2005 | CONAKRY
From The Economist print edition

Guinea's looming power vacuum endangers West Africa's recovery

BORDERED by Sierra Leone, Liberia and Côte d'Ivoire, Guinea has been more stable in recent years than its neighbours, which—until now—have been disintegrating under the hammer of civil wars, coups and economic crises. But many Guineans now fear the reverse. As Sierra Leone and Liberia grope towards a semblance of order and democracy, Guinea is wobbling. The International Crisis Group, a think-tank, says that it “risks becoming West Africa's next failed state”. That would be disastrous for Guinea—and may stymie its neighbours' faltering progress too.

Most of Guinea's 8m or so people are disenfranchised and dirt-poor. Few have clean water, electricity or decent sewage. Education and health care are dismal. Above all, government is lousy. It is hard to know who really runs the country. The president, General Lansana Conté, aged 71, is an ailing diabetic, rarely seen in public.

What is certain is that he surrounds himself with a shady coterie of businessmen and religious advisers—and that Guinea is undemocratic; after the death in 1984 of his tyrannical predecessor, Ahmed Sékou Touré, Mr Conté seized power in a coup. He promised democracy and economic reform but for two decades Guinea has been a military dictatorship.

Mr Conté has no anointed heir. Bigwigs in his own Party of Unity and Progress are jockeying to succeed him. If they fail to sort things out, Guinea's only respected national institution, the army, might well take over. It might prevent anarchy, but the army is not immune to internal strife either. In January, shots were fired at the presidential cavalcade as it entered Conakry, the capital. The attack was a dud. State television hinted that foreign forces were behind it. The name of Mr Conté's implacable enemy, Charles Taylor, Liberia's brutal former president, was bandied about. But it was probably an inside job. A popular Guinean lieutenant, Mamadouba “Toto” Camara, was arrested in February and has been behind bars ever since.

Though Guinea has a lot of gold and iron ore and sits on one-third of the world's proven bauxite reserves, its economy is just as bad as its politics. The black market probably accounts for four-fifths of it. Guinea's richest man is Mr Conté's friend, Mamadou Sylla, who has created a gigantic empire, Futurelec, which owns Air Guinée Express, imports rice and vehicles, and has interests in property, farming and construction. It is not known how much tax he pays. At the poorer end of the scale, barely one Guinean in ten pays any at all. Most foreign donors are fed up with throwing money down the bottomless pit that is Guinea's budget—and have stopped doing so.

The biggest worry is that Guinea may become entangled in its neighbours' travails. It has generously hosted hundreds of thousands of refugees from Liberia, Sierra Leone and Côte d'Ivoire. But over the years it has also meddled in those countries' politics, and more recently in the affairs of Guinea Bissau. To the annoyance of most Sierra Leoneans, Guinea occupies a slice of their country called Yenga. Guinea also supports the government of Côte Ivoire, which is torn in half by civil strife.

It is even more deeply—and dangerously—involved in Liberia, where it aids (some even say it created) an armed faction called the United Liberation Movement for Democracy in Liberia (ULIMO) that fought against Mr Taylor's rebel force for most of the 1990s and was allowed to remain in Guinea's Forestire region, much to the dismay of the hapless locals, who were constantly harassed by the armed Liberians. When ULIMO turned into the Liberians United for Reconciliation and Democracy, and in 2003 attacked Monrovia, Liberia's capital, Guinea served as a conduit for weapons that killed hundreds of Liberian civilians. Now, with Liberia and Sierra Leone due to have elections next year, it would be bad for the whole region if Guinea imploded.

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Niger

Don't let it starve

Jul 21st 2005
From The Economist print edition

The West has been slow to react to prevent an impending disaster

AT THE best of times, the vast, arid country of Niger, on the southern edge of the Saharan desert just north of Nigeria, struggles to feed itself. But now, after the worst locust invasion for 15 years as well as a drought, things look more ominous. The UN and international aid agencies have given warning that, with the rainy season about to begin, making food relief much harder to bring to remote areas, food shortages could turn into a real disaster unless urgent action is taken.

The UN's World Food Programme (WFP) is giving emergency food aid to 1.2m people, mostly children, out of a total population of about 13m. A further 1.3m are being fed by the government and assorted NGOs, while a further 1.1m are in imminent danger of needing emergency aid as well. Médecins Sans Frontières (MSF), the main NGO on the ground, says that in certain areas an “epidemic of acute malnutrition” is affecting 20% of children under five years old. Many are already dying of starvation.

Jean-Hervé Bradol, MSF's president, calls Niger's food shortage the “worst in Africa” today. Along with many others involved, he says that rich countries have been “slow to react”. So soon after their promise at their meeting earlier this month in Scotland to give some $25 billion more in aid to Africa by 2010, Niger's dipping under the radar of international awareness is particularly disappointing.

The WFP's Greg Barrow says that despite months of warnings about Niger's “creeping emergency”, it is “astonishing” that the WFP has still raised only a third of the modest $16m it has asked for from donor countries. Perhaps longer-running African crises—among others, in Sudan's Darfur province, in Zimbabwe and in Congo—have distracted attention.

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India and America

Together at last

Jul 21st 2005 | DELHI
From The Economist print edition

Reuters

America adds substance to its professions of friendship for India

FOR months, American officials have been insisting, as one put it, that “there is no higher priority” for George Bush's second term in office than “expanding and broadening our relationship with India”. If that could be achieved by pomp and ceremony, the visit this week to Washington, DC, of Manmohan Singh, India's prime minister, would have done the trick. He was showered with honours, including a 19-gun salute and the chance to make a speech to Congress. The president even stayed up late to entertain him to a White House banquet, only the fifth he has thrown in more than four years.

America's professions of friendship have of late started to ring rather hollow. It has remained committed to its strong alliance with India's nuclear-powered neighbour and rival, Pakistan. It has refused to endorse India's chief foreign-policy goal, a permanent seat on an expanded United Nations Security Council. It opposes India's cherished project to pipe gas from Iran across Pakistan. And it has withheld co-operation in military and nuclear technology because India tested nuclear weapons in 1998 and has never signed up to the international non-proliferation regime.

Of these four areas of contention, Mr Singh's visit marked a breakthrough only on the last. But this one matters so much that it has transformed the relationship. America has agreed to help India acquire “the same benefits and advantages” as other states with nuclear weapons. India is to be granted “full civil nuclear energy co-operation”—such as fuel supplies and the transfer of technology.

This is hugely important for India. One of the biggest constraints on the continuing success of its fast-growing economy is an electricity shortage. Nuclear energy, which at present accounts for only about 3% of total generation, is, in many eyes, an attractive alternative to coal and expensive imported oil and gas.

Very well then, keep your bomb

The American move is also a great symbolic victory. For decades India has faced sanctions because of its nuclear-weapons programme. Now, America is, in effect, offering to help it to become a respectable bomb-wielding citizen. In return, to the consternation of critics at home, India has promised to adopt the same responsibilities as other nuclear powers, including separating its civilian nuclear facilities from

military ones, opening the former to international inspection and maintaining its moratorium on nuclear testing.

For more upbeat Indian analysts, the nuclear deal is proof that the country has achieved "dehyphenation"—a decoupling of its relations with America from the sometimes vicious America-India-Pakistan triangle. America has close relations with Pakistan, which swiftly followed India into the nuclear club in 1998, but Pakistan does not enjoy any of the new privileges the Americans are bestowing on India. Nor, these days, does America press India to make concessions over Kashmir, the core of its dispute with Pakistan.

The change in America's attitude reflects both India's emergence as an economic force to be reckoned with, and the rise of neighbouring China. India's economy is only about 40% the size of China's, but its fast growth and young population mean that its global role is increasing, not least because of its thriving information-technology and outsourcing industries. Just as the boss of any big American firm needs to tell his shareholders a China story, so he now needs an Indian strategy too. One of the outcomes of Mr Singh's visit was the launch of a new forum of Indian and American chief executives.

American and Indian officials stress that the two countries' relationship is independent of their respective relations with China. Yet America's stated ambition to help India become a great power in the 21st century cannot be detached from apprehensions about China's looming might. Although India is enjoying something of a second honeymoon with China, its own long-standing suspicions, which date to the war of 1962, have not entirely faded.

Despite the instinctive anti-Americanism of many Indian intellectuals, both India and America recognise that, as democracies, they should have common interests. These were obscured by the legacy of the cold war, during which a "non-aligned" India tilted towards the Soviet Union, and the United States played the "China card". The much-needed rapprochement with India was pursued by President Bill Clinton, but further delayed by India's bomb tests in 1998, and then by the attacks on America on September 11th 2001, which gave Pakistan new importance in the war against terror.

That importance persists, but officials say that Mr Bush is personally committed to better relations with India. Revelations of the Pakistani connections of three of the suicide-bombers who attacked London this month were a reminder that Pakistan is also part of the terrorism problem. India, on the other hand, as Mr Bush pointed out when he introduced Mr Singh to his wife in Moscow in May, has more Muslims than any country other than Indonesia— but no known al-Qaeda recruits.

Pakistan will at least be pleased that America's new love affair with India does not extend to open support of its Security Council bid. Mr Bush went no further than to agree that international institutions should "fully reflect changes" that have taken place since the UN was set up in 1945. India agrees with that—though many Indians suspect that the only change America really wants to preserve is its own emergence as the unchallenged superpower.

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Pakistan's religious schools

The general at war

Jul 21st 2005
From The Economist print edition

Tackling extremism at its roots

AP

Stop them while they're young

FIRST came the news that at least two of the bombers responsible for the London attacks visited Pakistan, possibly for religious training; then came a big series of raids by Pakistani security services on the country's many *madrassas.* Two old questions have now returned with new urgency: why are terrorists still able to operate in Pakistan and is General Pervez Musharraf, the country's president, doing enough about it?

Estimates of the number of students who attend Pakistan's *madrassas* vary wildly, from half a million to three times that number. Many of the schools are located in the country's wild north-west and may be unknown to the government altogether, and determining which *madrassas* breed terrorists is hard. “Many of them are just schools, and good for poor children,” says Robert Templer, Asia director of the International Crisis Group (ICG). But some do incite religious hatred and sectarian violence. Jamaat-e-Islami, a religious party whose views tend towards the extreme end of the spectrum, called the London bombings “the continuation of the conspiracy of 9/11 to victimise Muslims all over the world.”

General Musharraf must combat such propaganda, spread through Jamaat's many schools. But given its popularity in the north-west, due not least to the medical services it offers locals, he needs to tread cautiously. Extremists hit back hard, as frequent bombings and two attempts on General Musharraf's life in 2003 show.

The general has been rather slow on the job. As a report by the ICG notes, “Under Musharraf, Zia's Islamisation measures, the primary source of religious extremism and sectarian conflicts remain virtually untouched.” Hate-inciting material continues to circulate. “Groups banned once, twice, spring up again, in spite of repeated warnings,” says Samina Ahmed, director of the ICG's South Asia project.

So what is General Musharraf doing? His strategy includes a military offensive and an ideological one. Raids, such as those that netted some 200 suspects on July 19th, and full-scale operations, such as those in the border area of Waziristan, have had some success. “We have killed over 350 terrorists and apprehended more than 700 in the past year,” says Major-General Shaukat Sultan, chief spokesman for the army.

Above all, though, this is a war of ideas. So the government has moved to reform the *madrassas* themselves. Since 2001, they have been supposed to register with the authorities, whereupon the government is meant to help them expand their curriculum to include maths, science, English and computer studies. A more balanced education, Pakistan hopes, will wean its youths from extremism. “We hope that the students will ultimately get jobs outside the mosques,” says General Sultan.

A question mark hangs over the scheme's success. General Sultan admits that “progress has been slow”; but of the 12,000 *madrassas* the government estimates to exist, he claims that 7,000 have undertaken reform. Unfortunately, that leaves at least 5,000 unreformed—presumably the problematic ones. General Musharraf's problem has always been that the army he heads is too close to the extremists, whom it uses in Kashmir and Afghanistan, and that his government partly depends on the support of religious parties.

General Musharraf's stance on a recent Islamic bill has been less equivocal. Passed by the provincial assembly of North-West Frontier Province, it calls for the appointment of a religious inspectorate to "protect Islamic values" by ensuring, among other things, that calls to prayer are respected and that unrelated men and women refrain from appearing together in public.

Comparisons with the Taliban were inevitable and General Musharraf has acted fast. Under his direction, Pakistan's attorney-general has filed a petition with the Supreme Court demanding that the bill be ruled unconstitutional. The case has yet to be decided, but General Musharraf's actions suggest he may have grasped a crucial point: compromising with extremism is no way to tackle terrorism.

Ultimately, however, Islam itself must be turned against Pakistan's terrorists. In a speech this week, General Musharraf called upon Pakistan's youth "to launch *jihad* against religious extremists". A noble cause indeed. But there is a long, hard road ahead—and General Musharraf has yet to prove that he is fully willing to walk it.

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China

The rival down the road

Jul 21st 2005 | BEIJING AND TIANJIN
From The Economist print edition

Two cities that are neighbours but not friends

NORTHERN Chinese officials have long looked with envy on the industrial booms enjoyed by the Yangzi and Pearl River deltas to the south. Leaders in the city of Tianjin talk of replicating the southern experience by turning their port city into a “dragon head” leading the region, a Shanghai of the north. They have not been helped, however, by a longstanding rivalry with neighbouring Beijing and a political culture in northern China that has found it harder to adapt to freewheeling private enterprise.

But Tianjin's leaders believe that the city may be on the verge of getting what it wants. They are excited by a visit paid in late June by the prime minister, Wen Jiabao, and his strong endorsement of Tianjin's New Binhai Zone, a decade-old industrial park and port complex that has already attracted billions of dollars of investment from some of the world's biggest manufacturers. Officials say Binhai will feature in the country's next five-year plan to be promulgated in 2006—a sign, they say, of the zone's elevation from local project to a national strategic priority.

The mutual standoffishness between Beijing and Tianjin—both municipalities that answer directly to the central government rather than any province—is also beginning to erode. Or so officials hope. Work has just begun on a high-speed rail link intended to reduce travelling time between the two centres to half an hour or so. It now takes more than twice as long. Construction of a new expressway between the cities has also just started. Both projects are due to be completed in time for Beijing's Olympic Games in 2008 (Tianjin will host some soccer matches).

But breaking down political barriers in the region could take time. In the 1980s, Beijing municipality invested in its own port, Jingtang, in Hebei Province to the east of Tianjin to avoid having to rely on its neighbour. Most businesses kept on using Tianjin's far closer and better-developed facilities. Tianjin has bridled at the big expansion now under way of Beijing's airport, believing that Tianjin's own airport could have taken some of the traffic.

Xiao Jincheng, a central-government researcher, says both cities are protectionist when it comes to key state-owned industries such as car manufacturing. In the 1990s, squabbling over the siting of an ethylene plant financed by the central government led to the project being split between Beijing and Tianjin. As a result, neither of the plants reaped full economies of scale, and both made losses. China's

southern regions, it should be admitted, are no strangers to local rivalries either. Several large and loss-making airports in the two delta areas are testimony to a wasteful race for prestige.

Some Chinese scholars argue that creating a “greater Beijing” (in effect bringing Tianjin under the capital's control) would aid regional development. The idea does not go down well in Tianjin. The city's reformist mayor, Dai Xianglong, a former chief of China's central bank, says market forces will help more. Nowadays, he says, state-owned banks would not lend to projects that are simply wasteful duplications of others in the area. If so, that would indeed be a breakthrough for the region's development.

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China and the Kuomintang

The devil they know

Jul 21st 2005 | BEIJING
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The mainland welcomes a democratic election

CHINA'S leadership, normally sullen in response to democratic developments in Taiwan, has reacted gushingly to the first contested leadership election in the 110-year history of the Kuomintang (KMT), these days the island's main opposition party. The winner, Ma Ying-jeou, is a man it feels comfortable with.

The reason is that Mr Ma, Taipei's 55-year-old mayor, represents a tough challenge to the ruling Democratic Progressive Party (DPP), which believes the island should remain permanently separate from China. The KMT only just lost the last presidential race, in 2004. It might have won if a younger reform-minded leader like Mr Ma had been in charge, instead of the 68-year-old Lien Chan, an uninspiring politician who has stepped down. With Mr Lien as its candidate, the KMT lost the presidency in 2000 to the DPP's Chen Shui-bian. Only two years earlier, Mr Chen had lost to Mr Ma in a race for the Taipei mayoralty.

China's Communist Party abhors the idea of contested elections for its own leadership. But it doubtless found the outcome of the KMT's poll on July 16th reassuring, since it suggests that there might still be a future for “mainlanders” in Taiwanese politics. Mr Ma was born in Hong Kong to Hunanese parents. His rival in the race for the party chairmanship, was Wang Jin-pyng, a native Taiwanese. Mr Ma won with more than 70% of the vote.

Mr Ma has hinted that he might run for the presidency in 2008, when Mr Chen must step down. The handsome Mr Ma may be a mainlander, but his charisma and his popularity could compensate for that. He will also appeal to voters who prefer stability to confrontation with China. In response to China's congratulations, he said that he would respect an agreement reached in April between his predecessor and the Chinese leadership, which reaffirmed both parties' opposition to Taiwan's formal independence.

Mr Ma is not pushing for reunification with China. Indeed, he has often criticised the communists, especially for a recent law authorising the use of force against Taiwan if it formally declares independence from China. These days any anti-secessionist, especially one with a realistic chance of defeating the hated DPP, is someone to be warmly welcomed in Beijing.

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Japan

The postman knocks

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The hidden beauty in a heated battle

IN JAPANESE society, complains Hiroyuki Arai, “if you go against something you get a negative image.” It sounds an innocuous claim: who could deny that Japan is a land of conformity? But Mr Arai is no ordinary observer of Japanese culture. He is a member of the upper house, hails from the ruling Liberal Democratic Party (LDP), and is a fierce critic of Junichiro Koizumi's drive to privatise Japan Post, along with its ¥331 trillion ($2.9 trillion) in bank and insurance assets. Mr Koizumi, the prime minister, desperately wants to push this reform through the upper house this summer, after winning in the lower house by only five votes earlier this month. LDP anti-reformists such as Mr Arai are calling Mr Koizumi a bully who must be stopped.

This could yet embolden enough LDP dissidents to vote against Mr Koizumi's signature project. The prime minister has indeed been twisting arms to get his way on Japan Post. He has threatened to call a snap election if the bills fail, which could cost the LDP its grip on power. His government sacked four members of parliament from their sub-cabinet posts for voting against the bills in the lower house. And the LDP's ethics committee has demanded written explanations from the 51 party members who dared to defy Mr Koizumi in that lower house vote. However, recent polls have shown that many voters dislike these tactics—even though all of them would be pretty standard fare in most other parliamentary democracies—and Mr Koizumi's support ratings have fallen accordingly.

So by claiming to be a group of underdogs who disdain conformity, the LDP's anti-privatisation wing is making clever use of political judo. But it is also being dishonest. For much of the past half century, the LDP has dominated the political landscape—with the not inconsiderable help of Japan Post's vast assets and political influence—while efficiently stifling public dissent from its wayward members. The LDP's old guard never displayed the slightest qualm about demanding party loyalty until Mr Koizumi, a market-oriented reformist with dangerous (to them) ideas, managed to get his hands on the levers of the LDP machinery.

Just ask Taro Kono. A year before Mr Koizumi took office, the young lawmaker ran into trouble on parliament's commerce committee because he opposed plans to recycle nuclear fuel. Mr Kono never even got a chance to register dissent. When he would not promise in advance to sit quietly without asking questions, his LDP elders simply booted him off the committee.

By contrast, the Japan Post bills have turned the LDP into a lively forum for clear public debate. Yes, the vote could be close, the battle could get messier and defeat for Mr Koizumi could bring chaos. But Japan, after all, teaches one to spot beauty in unexpected places. Although it can hardly match the cherry blossoms in spring, a genuine fight over a real reform is still a sight to behold.

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Thailand

Martial law plus

Jul 21st 2005 | PATTANI
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The prime minister gives himself sweeping powers

THAKSIN SHINAWATRA'S shrillest critics have long depicted him as a dictator and a bully. Now the Thai prime minister has the legal powers to live up to the insults. An emergency decree signed into law on July 17th allows him to detain suspects without trial, tap phones, ban public gatherings, expel foreigners and censor media reports that "could adversely affect state security, peace or public morality". The decree was passed in response to yet another bold attack in southern Thailand, where an escalating insurgency has claimed over 800 lives in the past 19 months.

Four months ago, Mr Thaksin had promised a more conciliatory tack in restoring order, including setting up a peace panel to address local grievances. Now, or so the panel's chairman sighs, it seems that Mr Thaksin is no longer ready to give peace a chance.

Or is he? His cabinet has declared a state of "extreme emergency" in the three southernmost provinces. But not all the powers are to be exercised immediately. Media censorship is in reserve for the moment, as is the ban on public assembly. Suspects can be held for up to 30 days, but only with judicial approval. Moreover, say his aides, Mr Thaksin is replacing martial law in the south, naturally disliked by residents, with civilian control. Now the buck stops with him, while reconciliation efforts continue.

Many Thai voters may find all this reassuring. But the suspension of civil liberties has troubling overtones. The full range of powers is now on the books and can be exercised whenever the cabinet deems necessary—and the extra powers are not confined to the south. Media watchdogs fear Mr Thaksin—who takes "negative" coverage famously badly—may opt for a news blackout.

In addition, the decree grants immunity from prosecution to security forces in emergency zones. Yet most observers argue that it is unpunished brutality by them that is fuelling the insurgency. At least 87 Muslims died when a protest last October was suppressed. No officer has stood trial. Disturbing new allegations of extra-judicial killings are also emerging. On June 20th, three Muslim men were shot dead in the southern town of Pattani. One of them, the son of an Islamic schoolteacher, was being hunted by the authorities after he escaped during a raid on his family's school.

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Aceh

A chance for peace

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But not for independence

AS MANY as 12,000 people, most of them civilians, have died since the conflict between government troops and separatist rebels in Indonesia's westernmost province of Aceh began in the mid-1970s. An even worse disaster was visited upon the troubled province by the tsunami of December 26th, which swept away perhaps 170,000 of its residents and left around 600,000 homeless.

Shortly after the tsunami, a new round of peace talks began, sponsored by Finland. One of the main obstacles to a settlement was cleared early on, when the rebel Free Aceh Movement (GAM) dropped its demand for full independence. Meeting in Helsinki on July 17th, representatives of the two sides announced that they had arrived at a formula for disarming militants, reintegrating them into civil society, withdrawing Indonesian troops and monitoring a ceasefire, which they intend to sign on August 15th.

Considering how quickly a previous peace accord, in 2002, fell apart, it is unsurprising that this breakthrough met with a muted reaction in Aceh. Intermittent fighting has continued since the talks began and beyond the announcement on Sunday. Though the government has given ground on the rebels' demands for political representation, it appears (full details of the proposal are still unknown) that they will not yet be allowed to form a local political party, as they demand, since Indonesian law bans regional parties. Indonesia's vice-president, Jusuf Kalla, hinted that GAM might be allowed to set up a nationwide party—though that would require it to set up branches in at least half of the country's 33 provinces. Once the law has been amended, a local Aceh party might even be permitted. Rebel commanders may take some convincing that such vague promises are enough.

The army's chiefs, for their part, may take some convincing that any compromise is in Indonesia's best interests. They must worry that, having already “lost” East Timor in 1999, the country could fall apart if too many concessions are made to the Aceh separatists. Several provinces already have separatist movements and the fear is that concessions to GAM may encourage others.

However, there are also grounds for optimism. These include signs that the authorities in Jakarta are more committed to a settlement of the Aceh question than before. The justice minister, Hamid Awaluddin, has now stated that the demilitarisation of Aceh is to take place between mid-September and the end of December, during which period non-local Indonesian troops should pull out of the province, and the rebels should hand over their weapons. Widespread international attention after the tsunami also helped persuade both government and rebels to try a little harder.

The Association of South-East Asian Nations and the European Union will help monitor the proposed ceasefire (this would be the EU's first such venture into Asia). But there is still a tricky month to go before the ceasefire is even signed.

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The media industry and indecency

Scrubbing the airwaves

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America's media firms are struggling to contain Congress's anger about indecency

MORE than any other industry, America's multi-billion-dollar entertainment business is caught in the crossfire of the country's culture war. Media firms have always had to walk a fine line between giving adults realistic shows and shielding children from sex and bad language. But thanks to the current political clout of social conservatives, TV and radio firms are under more attack than ever for allegedly corrupting America's youth.

Congress is threatening to increase sharply fines for airing indecent material, and some politicians want to regulate cable and satellite TV for indecency for the first time. Over 80% of American homes subscribe either to cable or satellite TV, but only broadcast television, which is technically free, is subject to indecency regulation. The media industry fears that new rules could damage its business model.

The Federal Communications Commission (FCC), the media industry's regulator, defines indecency as language or material that describes sexual or excretory actions or organs and which is considered "offensive by contemporary community standards." Solely for the sake of children (present in one-third of American homes), indecency is forbidden from 6am to 10pm on broadcast TV and radio. In contrast to "obscenity"—illegal all the time—indecency mostly consists of swearing, partial nudity and sexual *double entendres*.

America's current battles over indecency began in 2003 when Bono, a rock star, said "this is really, really fucking brilliant" at a live awards show. The FCC decided to do nothing. Then came a glimpse of Janet Jackson's breast during last year's Super Bowl, outraging some viewers. Pressed by Congress, the FCC reversed its decision on Bono and said it would get tough on indecency. In 2004 it fined media firms nearly $8m, five times what it had levied in the previous ten years combined.

Expletive deleted

For these firms such fines are puny. Yet fearing what future measures might be deployed against them, they have increasingly censored themselves. Last year several TV stations declined to air "Saving

Private Ryan", a war movie with lots of swearing. Clear Channel, a big radio firm, axed Howard Stern, a shock jock: he is going to satellite radio, free from indecency rules. Losing Mr Stern and other outspoken personalities partly explains why broadcast radio's rate of growth has slowed, says Lawrence Haverty, a fund manager at Gabelli Asset Management.

The media industry faces a powerful bipartisan coalition of politicians who see votes in cleansing the airwaves. Republicans are leading the effort, but some Democrats are joining in—not surprisingly, as many parents do seem worried. A recent study by the Henry J. Kaiser Family Foundation, for instance, found 60% of parents "very concerned" about the amount of sex their children are watching on TV.

One defensive strategy for the media industry is to play the moralising wing of the Republican Party off against its substantial libertarian wing, which is opposed to giving the government more power to censor. Viacom, News Corporation and General Electric's NBC have together enlisted the support of the American Conservative Union, Americans for Tax Reform and the US Chamber of Commerce. Advances in technology, these groups argue, mean that the government no longer needs to police the airwaves for indecency. Many parents now have V-chips in their TV sets to block out risqué material. Set-top boxes for cable and satellite TV also give parents control.

Intriguingly, opposition to the censorship lobby is coming even from some in the media industry who might be expected to favour it. Even some explicitly Christian broadcasters worry that religion itself could come under attack from a future government with increased power to censor TV. "This administration is friendly to us, but a future government might head in the direction of Canada where a broadcaster can have its licence revoked if it refers negatively to homosexuality," says Stuart Epperson, chairman of Salem Communications, a Christian radio company.

Campaigners against indecency have cleverly seized on the idea, opposed by most broadcasters, that customers should be able to purchase programming "à la carte"—ie, buying only those channels they want their children to watch and not paying for anything else. Cable and satellite firms currently sell standard bundles of channels. Even when it is possible to buy a single channel, such as HBO, viewers still have to buy a basic package of dozens of channels before they can do so.

"Anything that jeopardises bundling cuts to the core of the economic proposition of both TV distributors such as Comcast and the content conglomerates such as Disney," says Craig Moffett, an analyst at Sanford Bernstein. Other industry experts, however, reckon that the industry would cope. A la carte first made headlines a few years ago when John McCain, a senator, championed it as a way to lower TV bills. His efforts culminated in a study by the FCC which concluded, late last year, that à la carte would in fact raise the cost of TV for most people. The media industry, it said, would respond by charging more per channel for a narrower range of channels, and would also pass on to customers the extra costs of offering individual choice.

Even so, the Parents Television Council and other family groups are making headway in their campaign for à la carte. Ted Stevens, chairman of the Senate's commerce committee, is said to favour requiring a "family-friendly tier" of channels—a mild version of à la carte—as does Kevin Martin, chairman of the FCC. A family-friendly tier would be a bundle of channels with material suitable for children. This does not alarm the media industry as much as pure à la carte because the principle of bundling would broadly hold, and they could charge a fairly high price for it.

Lawyers advising media firms are talking tough. If Congress tries to extend indecency regulation to cable and satellite TV, directly or by requiring a family-friendly tier, "we will try to get indecency laws for broadcast TV thrown out entirely," says a lawyer for one media giant. Past rulings in this area by both the Supreme Court and lower courts show that judges are mostly reluctant to trespass on the constitutional protection of free speech. Perhaps they would agree with TV firms that indecency laws no longer make sense.

Analysts reckon that pressure from Congress and from Mr Martin will anyway prompt distributors and content firms to offer a family-friendly tier to avoid something worse being imposed. "It would be a political expedient, but also a viable and logical compromise," says Mr Moffett.

Safe in their liberal strongholds of New York and Los Angeles, it is easy for media executives to underestimate the strength of public feeling against indecency on TV. "Look at the top shows," says one, such as "CSI", which is "all about murder, and 'Desperate Housewives', full of sex." But that misses the point. For the sake of children, a large part of the public wants something done. If media firms do not cater to this demand, Congress probably will.

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French business

Overreacting? Moi?

Jul 21st 2005 | PARIS
From The Economist print edition

The French are in a tizzy over rumours of an American bid for Danone

TALK about paranoid. Suddenly, all of France is defending a national champion against a non-existent attack. This week, French politicians on all sides have been talking gravely about the dangers of Danone, a big French food firm, falling into American hands. Even Dominique de Villepin, the prime minister, has promised to "defend the interests of France" amid rumours of a pending bid by PepsiCo, one of the world's biggest food firms, for Danone, whose shares jumped as a result by over 13% on July 19th. No matter that Pepsi has denied building a stake in Danone and declines to comment on reports of takeover talks.

Speculation about a bid for Danone has ebbed and flowed frequently in the past three years. Danone is focused on bottled water, dairy products and biscuits. It is the world's largest yogurt maker. Its Evian water dominates one of the fastest-growing segments in the food industry. On July 21st, it reported healthy net profits of €347m ($446m) in the first half of this year.

Yet this is the first time that the rumours of a bid for Danone have prompted such a political mobilisation—evidence of the extreme defensiveness of the country's leaders since its voters said no to Europe's new constitution in May. Patrick Ollier, head of the economic affairs committee in the National Assembly, vowed to enlist the aid of French institutional investors to defend Danone. On July 19th, Laurent Fabius, a prominent Socialist politician, appealed to Jacques Chirac, France's president, to fight to keep Danone a Europe-based French group. *Le Figaro* said that the rumours about a takeover of Danone were reviving memories of the "traumatism" of the takeover of Pechiney, a French aluminium maker, by Canada's Alcan.

Danone has a special place among the jewels of corporate France—a food firm in the land of culinary excellence. Its brand is one of the best known in Europe. Antoine Riboud, its founder, used to say that "Danone is like the cathedral of Chartres, and one does not buy the Chartres cathedral". His son Franck, the current boss, says he is similarly committed to an independent Danone—though there is talk that a bid of €25 billion might do the trick. Of the big global food groups, Pepsi is widely regarded as much the best fit for Danone. But how on earth will the French establishment react if the American firm actually makes an offer?

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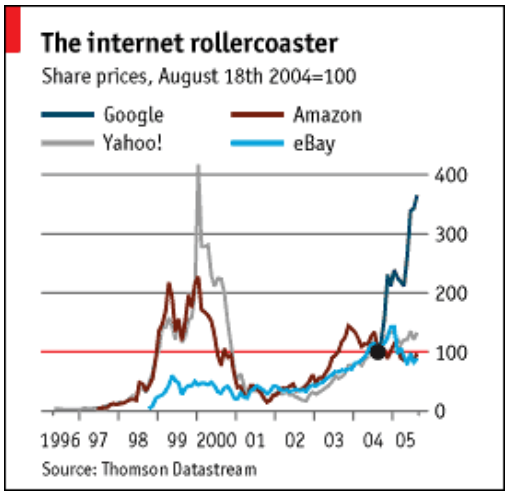
Internet businesses

Happy e-birthdays

Jul 21st 2005
From The Economist print edition

After ten years, what has been learnt about succeeding as an e-business?



JULY 16th was a big day in Amazon's history. “Harry Potter and the Half-Blood Prince”, the sixth in the series on schoolboy wizardry, was released with all-time record advance orders from the online store of 1.5m. On the same day, Amazon broadcast a live concert on its website to mark the day in 1995 when it “first opened its virtual doors for business”. E-commerce is celebrating its tenth birthday this year. On the last weekend in June, online auctioneer eBay held a gala anniversary dinner in its home town of San José. Yahoo!, a portal site, can also claim this year as its tenth. Only the search engine, Google, of the firms that in the internet decade have emerged as the big four of online business, is younger.

In their brief history, most online businesses have found profits harder to come by than publicity. Many early stars crumbled to dust (remember Webvan, pets.com and Boo.com?), and Amazon's string of losses (which touched $1.4 billion in 2000) only turned to profits in 2003. Though quarterly results this week from eBay, Yahoo! and Google show their already healthy profits to be growing strongly, none of today's online successes feels able to rest on its laurels. Each is trying to move beyond its original source of revenue—selling books and an ever-growing list of other goods (Amazon); auctions (eBay); online advertising (Yahoo!); and “contextual” advertising (Google)—by adopting the successful strategies of its rivals.

Amazon is now hosting auctions, and courting eBay traders; meanwhile 30% of eBay's revenues now come from selling goods at fixed prices. Yahoo! has made so many recent changes to its business that it is being called “the new Google”, while Google is using its advertising formula to steer specialist buyers straight to specialist sellers—in effect disintermediating eBay.

Market disruption is a lot easier and a lot faster online than on the high street—although the big four demonstrate that there is some advantage in being a first mover online, just as there is offline. If nothing else, first movers tend to get embedded in the vernacular. “To Google” is now a verb, while the words “Friends Reunited”, Britain's most valuable online brand, often appear in newspaper headlines. Michael Murphy, Friends Reunited's boss, reckons that such free publicity has given a big boost to his growing firm.

All successful online sites have had to reinvent themselves continually, points out Andrew McAfee of

Harvard Business School. Only that way have they been able to evade predatory newcomers. “The only survivors,” he says, “are the ones whose managers are able to move on.” Mr Murphy says he has “an open mind about the future”—not the sort of strategic planning that traditional boards like to hear.

Most online successes began, as the myth requires, with a couple of geeks in a garage and were then taken over, sooner or later, by professional managers. Geeks are not generally good at moving on from the ideas they give birth to. The notable exception is Amazon, where Jeff Bezos is still at the helm—although a recent article in the *New York Times* posed a question that many others have asked: “Has Amazon Outgrown its Founder?”

Raffi Amit of the Wharton School and Christoph Zott of Insead argue in a recent paper that the internet opened up “opportunities to be very creative in the design of the business model”. In e-commerce, they say, most value is created by business models—the way in which firms conduct their affairs with suppliers and partners, as well as customers—rather than (as is largely the case in the offline world) the products or services themselves. That may be why e-businesses have not replaced as many offline firms as was first predicted.

Two features of this new business environment have been surprisingly helpful in creating value: the sheer variety of products and services that can be offered online; and the extent to which online communities help each other for free.

Erik Brynjolfsson of MIT's Sloan School estimates that Amazon offers 57 times as many titles as a typical large bookstore stocks. This is typical of the so-called “long-tail” phenomenon: books that once lacked a market can be shifted at any time off Amazon's virtual shelves. Mr Brynjolfsson estimates that in 2000 the value of online sales of books that were not available at a typical bookstore was $578m. That suggests there is a lot of new business to be had, especially as there are long tails in many markets, from Clarisse Cliffe tea-cups to DVDs.

The success of Friends Reunited, which celebrated turning five on July 19th, highlights the value which can be created by online communities. The company has set up a system whereby people can interact with old schoolmates (for a fee) and spend money on a range of other things—dating, job-hunting or searching for ancestors. The value of such communities was shown this week when Rupert Murdoch's News Corporation agreed to pay $580m for Intermix Media, an American firm built on the demand among young people for online “social networking”.

Caroline Wiertz, of the City of London University's Cass Business School, has studied such online communities and says that the rewards for their apparently irrational behaviour come from the status and respect they gain from giving help online. Some offline firms have spotted this and been able to benefit from it. On a Hewlett-Packard customer-service site, for instance, visitors can award points for answers given to their problems by other users. Ms Wiertz says that 60% of the problems posted on the site are solved within two hours, and that 30% of call-centre queries have been diverted to the site. It costs $7 to process an average query via a call centre; it costs 50 cents to process it online.

What might drive the next round of e-commerce business models? Mr Brynjolfsson says that two new technologies are already throwing up opportunities: mobile access to the internet and RFID tags, which enable the non-stop monitoring of the whereabouts of goods. Wharton's Mr Amit says that the old-fashioned offline world was one where producers said to customers: “I've made this; buy it from me at this price.” In the online world, customers are saying, “I want this; sell it to me at this price.” That is why these internet birthdays really are worth celebrating.

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South Korean corporate governance

SKewered

Jul 21st 2005
From The Economist print edition

A setback for reform

SO MUCH for shaking up South Korean business. Two years ago, when Sovereign Asset Management, a Dubai-based investment fund, bought a stake in SK Corp, it promised to push for change at the South Korean oil refiner. One of its priorities was to pass a resolution banning convicted criminals from holding top jobs at the firm. Alas, SK Corp's board believes, unshakeably, that its particular corporate criminal—Chey Tae-won, the chairman and nephew of the founder—is simply too valuable a manager to replace. So this week, Sovereign admitted defeat and sold its stake.

Foreign investors—private-equity firms especially—are again being viewed warily in North-East Asia. Everywhere, deals are scarcer. Japanese firms are embracing poison pill defences that might deter foreign bidders. And South Korean politicians, executives and journalists are increasingly prickly about the foreign investors who now own over 40% of the shares of the country's big publicly-traded firms.

Last month, an appeals court granted probation on Mr Chey's three-year sentence. Although it did not overturn his conviction in connection with a $1.2 billion accounting fraud at SK Networks, an SK Corp affiliate, the court ruled that Mr Chey is too important to SK Corp to lock him up for three years. Sovereign has also failed in other efforts to improve governance.

“Having exhausted all of the legal rights currently available to shareholders under Korean law,” said Mark Stoleson, Sovereign's head of investments, “Sovereign is now exercising the only meaningful right remaining open to us” by selling. Unfair, says Lee Seung-hoon, SK Corp's head of investor relations, pointing out that the firm has improved corporate governance, for example, by filling seven of SK Corp's ten board seats with outsiders. Conveniently for SK Corp, on July 20th, Moody's, a rating agency, upgraded its debt, mentioning better corporate governance in its report. SK Corp also notes that Sovereign did nicely from its investment, with over a four-fold return in two years.

Indeed, many foreign investors have been unimpressed with Sovereign's aggressive public approach in South Korea, which attracted the ire of the local media, making it even easier for management to resist change. Expect SK Corp's remaining foreign investors to work quietly on the company—as they are doing with many other South Korean firms.

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American business

Suds law

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One threat to American firms from China is all washed up

Getty Images

Exciting times in the laundry

THE onset of takeover bids from China has rattled American businessmen and politicians, fearful of a communist state grown rich on trade surpluses with America. After Lenovo's acquisition of IBM's personal-computer business in December, the focus has shifted to Unocal, an oil company. China's CNOOC has offered $18.5 billion, topping a $17 billion bid from America's Chevron (which has nonetheless won the backing of Unocal's board). In the shadow of Unocal a much smaller but equally fierce struggle has been taking place, for Maytag, a maker of household appliances whose brands—including Hoover in America—have a sentimental place in American life. And here, against expectations, a Chinese bid has been rebuffed.

Along with two private-equity firms, Haier, an electrical goods manufacturer listed in Shanghai and Hong Kong, offered $1.3 billion for Maytag last month, topping an offer of $1.1 billion from a group of investors led by Ripplewood, another private-equity firm. This week America's biggest white-goods maker, Whirlpool, entered the fray ahead of Haier by offering $1.35 billion, subject to further scrutiny of Maytag's books. Haier decided it had seen enough, and promptly withdrew its bid.

The fight for Maytag, which lost $9m last year on sales of $4.7 billion, is not over yet. Whirlpool has yet to complete its due diligence. Ripplewood could raise its offer. A new bidder may yet surface—though this week Electrolux of Sweden, the biggest foreign firm in America's domestic-appliance market, said that it was not interested. Antitrust problems may hinder Whirlpool, which has about one-third of the American market for large domestic appliances, while Maytag has 15%, including the goods which both firms make for sale under retailers' private labels. The other big domestic manufacturer, General Electric, has about 20%.

Whirlpool argues that the American market is so open, and the power of the big retailers so great, that competition would not be affected by it merging with Maytag. If so, it is all the more striking that a few American firms have held on to so much of the white-goods market for so long—when their old counterparts making TVs, for example, surrendered a decade ago.

They have done so partly because customers have resisted change. American buyers expect household appliances to last a decade or more, and their makers to offer service when something goes wrong. One day Americans may want more of the built-in obsolescence common in more complex electronic products. Then the pressure for change and choice will make it harder for a few companies, whether local or foreign, to own the market for long.

But for the moment familiarity and trust are the stronger forces, and Haier presumably saw the chance to buy both through Maytag. As for Whirlpool, it may be able to re-invigorate some of Maytag's staler product lines, and to cut costs across a bigger group. But its strongest motive was surely to deny Haier, or any other dangerous new rival, a commanding market position. And here, so far, so good.

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Business and AIDS

Making the small count

Jul 21st 2005 | JOHANNESBURG
From The Economist print edition

Can small and medium companies be enrolled in the crusade against AIDS?

ACCORDING to official figures published last week, up to 6.6m South Africans are HIV positive. This is shocking compared with the 4.5m previously thought to be infected. Realising that the disease imposes a high cost on their business, some South African firms, such as Anglo American and De Beers, have developed comprehensive programmes of prevention, testing and treatment. Yet most South Africans work for small and medium enterprises (SMEs) rather than mining giants, most of which are not doing anything.

To understand what could be done to bring them on board, a recent delegation from the Global Business Coalition on HIV/AIDS, headed by a former American ambassador, Richard Holbrooke, met small companies. According to a survey by the Bureau for Economic Research at Stellenbosch University, most of them believe that the virus has no impact on their business. Companies employing unskilled workers find it easy to hire replacements. Devising and implementing an HIV/AIDS programme takes time and money, both of which are in short supply for small firms.

Those that try face an uphill struggle against ignorance, stigma and fear (see article). Hulala, a resort employing 47 people in the Mpumalanga province, held information workshops and distributed condoms. But knowing more about AIDS did not convince workers to protect themselves: one turned down repeated offers of medical treatment; three weeks after he had to stop working, he was dead.

The South African Business Coalition on HIV and AIDS has developed a tool-kit for SMEs—a briefcase containing manuals offering a step-by-step plan, a video for staff and checklists to monitor progress. St Leger & Viney, a Johannesburg-based fabric business employing 45 people, started to use the tool-kit last year. Two employees working in the warehouse volunteered to drive implementation and, having undergone testing and counselling at a nearby clinic, are now busy convincing their colleagues to do the same. Drugs are available free at the same clinic. Those needing support can call a 24-hour helpline number plastered on the canteen walls. So far, the only cost to the firm has been time.

Yet with only 1,400 kits sold so far, the coalition is now trying to persuade large firms, such as Volkswagen and Eskom, a state power company, to urge their small and medium suppliers to make use of them. It has also launched a BizAIDS project, targeting formal and informal ventures with fewer than ten employees. A pilot programme including about 210 micro-enterprises in the Gauteng province taught owners how to plan and cope with illness and death. Having convinced them that infection no longer need be a death sentence, the programme links them with groups that can help with prevention and treatment. The pilot will be rolled out across the country, starting next month.

Free treatment, however, is far from available everywhere. After resisting for years, South Africa's government is now rolling out anti-retroviral therapy, but so far it covers only 50,000 or so people. Yet 1m South Africans probably need the drugs. So Mr Holbrooke's group is exploring ways of reducing the cost of private health insurance for small businesses. It is also looking into pooling neighbouring SMEs together into shared HIV/AIDS programmes. This may help them to believe that fighting HIV/AIDS is their business.

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Drugs and intellectual property

Corrupted

Jul 21st 2005
From The Economist print edition

Brazil's corruption scandal may deal a blow to intellectual-property rights

WHEN both parties to a negotiation declare victory, it often seems too good to be true—and in the case of a recent deal on AIDS drug prices between the Brazilian government and Abbott Laboratories, an American pharmaceutical firm, it was. On July 8th, the two sides announced an end to a stand-off over the cost of Kaletra, Abbott's anti-retroviral treatment. The drug accounts for nearly one-third of Brazil's budget for AIDS medications, which it provides free to HIV-positive citizens. The government had asked Abbott to cut Kaletra's price by 42% or grant a licence for the state to produce it. If not, Brazil threatened, it would disregard Abbott's patent and use a compulsory licensing procedure sanctioned by the World Trade Organisation (WTO) to manufacture the pills without the firm's permission.

Reuters

A big problem in Brazil

Under the July 8th deal, Brazil would maintain its current annual spending level of $109m on Kaletra until 2010. As in the next six years the number of patients receiving the drug is expected to rise from 23,400 to 60,000, Brazil would pay a much lower average price per pill. Abbott's revenues would not change. Both sides hailed the deal which would let Brazil greatly expand its AIDS treatment scheme for nothing without hurting the firm's bottom line.

The pact barely lasted a week. On the day it was made public, the health minister who agreed to it, Humberto Costa, quit in a cabinet shuffle prompted by the corruption scandal battering the government. On July 14th, his successor, José Saraiva Felipe, said that no deal had been finalised, and that he wanted more discounts. “Breaking the patent has not been discarded as a final alternative,” he says.

Abbott says it still hopes to seal the deal negotiated with Mr Costa. But tweaks may not be enough to bring the Brazilians back into the fold. As new allegations surface daily about graft in the governing Workers' Party, Mr Felipe may decide to show his spine by being tough on foreign drug firms. “In a country where corruption is rampant, it's very good to show that there are Brazilian public servants seeking the best possible bargain,” says Otto Licks, an intellectual-property lawyer in Rio de Janeiro. “Keeping this in the media diverts attention from the scandal.” Playing to nationalist sentiment by granting local production rights to local firms might also boost the government's popularity.

Although Abbott could probably afford the loss of the Brazilian revenues (0.5% of its total sales) if a compulsory licence were issued, industry representatives and patent-rights advocates fear the precedent-setting effect of such a move. In the Uruguay round of WTO negotiations, wealthy nations did agree to allow compulsory licences during public-health emergencies. But according to Shanker Singham, author of a recent journal article advocating strong intellectual-property rights in the developing world, they did so only on the assumption that “governments would be spartan in their use of this nuclear option, which overrides everything else.” If Brazil crosses this line, many other low- and middle-income countries might follow, which pharmaceutical firms claim would reduce incentives to invest in new drugs.

Naturally, advocates of greater access to essential medicines say that more compulsory licences would be good, and dismiss talk that research and development would suffer. “A domino effect would be excellent,” says Kevin Outterson of West Virginia University. “We should encourage poorer countries to free-ride on Western innovation. They are not part of the market anyway, and as long as it doesn't replace markets these companies rely on, the gains to public health would be tremendous.”

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Beer

Andean thirst

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SABMiller buys South America's second-biggest brewer

"IT'S our kind of game," is how Graham Mackay, boss of SABMiller, describes his British-based firm's $7.8 billion purchase of Grupo Empresarial Bavaria, South America's second-largest brewer. Many analysts raised a glass to the deal when it was announced on July 19th because it will give SABMiller access to some of the world's fastest-growing beer markets at a time when drinkers in richer countries are ordering more wine and spirits. But other brewers have spied the region's potential, too.

First among those competitors is InBev, the world's biggest brewer by volume since it was formed last year when Belgium's Interbrew bought Brazil's AmBev. Bavaria's brands—Aguila, Cristal and Pilsner—dominate in Colombia, Peru, Ecuador and Panama. While the deal will help SABMiller in its battle with America's Anheuser-Busch for second spot in the global brewing league, both already outrank InBev in revenues.

Other emerging markets, such as China, are bigger than the Andean region, but are costlier for brewers to operate in—and margins are tiny. Bavaria's operating margins are a healthy 21%. Per-person consumption of beer in Latin America last year was 40 litres (70 pints), half that in North America, according to Euromonitor. Better marketing should boost that demand. And Natasha Cazin, Euromonitor's global beer analyst, expects new beer categories to develop, such as for low- and no-alcohol beer, which alone could grow by 45% within five years. Premium brands and imported beers may flourish too as people grow more affluent.

SABMiller says that it has factored fiercer competition into its calculations, but still likes the deal, relatively expensive as it seems. As part of it, the Santo Domingo family, Colombia's wealthiest and Bavaria's controlling shareholders, will end up owning 15% of SABMiller. Although courted by other brewers, notably Heineken, the family chose SABMiller in part because of its experience in emerging markets. The firm began life as South African Breweries, changing its name after it acquired America's Miller Brewing in 2002.

SABMiller's record of defending a dominant position in Africa, and more recently its expansion into Central America, makes Mr Mackay confident that he can make money from Bavaria. Much will depend on how a new marketing campaign fares. This will include everything from more differentiation between Bavaria's brands to better-looking bottles. Success will be locals ordering another round or two.

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Face value

The crossover queen

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EPA

Shakira and the dilemmas of going global

TO SING in Spanish or in English? That was the tricky choice facing Shakira and her record company, Sony BMG, as they pondered how to follow the Colombian pop star's 2001 global chart-topping, 13m-selling album, “Laundry Service”. That album, Shakira's first (mostly) in English, was a dramatic entry into the lucrative English-language pop market for a singer who had sold some 12m of her four previous albums, all in Spanish. Having penned her first song at the age of eight and released her first album aged 13, earning an estimated $30m even before “Laundry Service”, Shakira found herself described as Latin America's biggest star and, by some wags, Colombia's greatest legal export.

“Laundry Service” put Shakira's commercial achievements on a par with—perhaps even ahead of—those of other leading pop stars who have lately crossed-over from Spanish to English, such as Ricky Martin, Enrique Iglesias and Gloria Estefan. But how to build on that triumph? “The industry would have liked me to put out another English album six months after 'Laundry Service',” says Shakira, now 28. “But I can't make music like hamburgers.” Sony had little choice but to wait for her to deliver in her own time—and in the language, or as it turned out, languages, of her choice. This year—several years late, from the industry's point of view—Shakira is releasing not one but two new albums. And, even more contrary to industry conventional wisdom, the first, just out, is in Spanish—“Fijación Oral volumen 1”—with an English-language album, “Oral Fixation volume 2”, held back until November.

This strategy, Shakira concedes, is a gamble, albeit one for which she is happy to accept responsibility. “I like risk and challenges... If it goes wrong, I'm to blame.” In an industry in which established artists are steadily grabbing power from the big corporations (whose main defence is to try to “manufacture” a stream of easy-to-manage identikit boy and girl bands, or turn many a non-entity into a “Pop Idol”) Shakira is said to exercise tighter than average control over all aspects of her career. In interviews she may attribute her decisions to “irrational impulses” and “feminine intuition”, but industry insiders say she has an impressive grasp of business logic. As her career approached a crucial stage in the mid-1990s, for example, she teamed up with Emilio Estefan (husband of Gloria), the Miami-based king- (and queen-) maker of Latin pop. She has always written her own material: when she decided to enter the English-language market, she learnt English well enough to write songs in it, and thereby ensured that she retained control over her music. She also changed her image ahead of the launch of “Laundry Service”, with a striking new blonde look—though, typically, she denies this had any business motive, saying instead that it was simply the result of her natural brown hair having become “like a jail... I

didn't want to be buried with it."

So what is the business logic behind this year's belated two-album release strategy? After all, there was a high price to pay for taking so long to launch a new album. The momentum created by "Laundry Service" has been largely lost, says one Sony executive, so when it came to market her new work the firm had "to assume it was starting from scratch again". On the other hand, he concedes, "you can't rush an act like Shakira"—whose work has even been praised for its "innocent sensuality" in an essay by the novelist Gabriel García Márquez (a fellow Colombian).

Releasing the Spanish album first had two main goals. One was to re-establish her roots in the Latin marketplace. "When Hispanics heard I was writing in English, they probably thought I was leaving for ever," she says. Certainly, back home her fellow Colombians grumble about Shakira having "abandoned" her middle-class origins for the Latin elite based around Miami and the Bahamas—she has homes in both—and "speaking Spanish with an Argentine accent" since she started to date Antonio de la Rua, the son of a former Argentine president. Two English albums in a row might have been too many, not just in Colombia.

Yet, Shakira points out, economic woes, social inequality and bureaucratic governments (among other constraints) mean that many Latinos have to go abroad to make it big. For a global pop star who is often touring, the transport links out of Miami are far better than those from Colombia. But, she says, "I have always been patriotic", visiting Colombia often and involving herself in its social problems. She is extremely active in the foundation she started when she was 18, Pies Descalzos ("Bare Feet")—named after her third album—which helps children affected by the violence and war on drugs that have displaced some 2m Colombians. She has even harmonised her commercial endorsement strategy with her social activism. Having initially followed the likes of Madonna and Michael Jackson by becoming a face of Pepsi—which "gave me exposure at a time I needed it"—she has since moved on to Reebok which, she says, is interested in human rights and donated 50,000 pairs of shoes via her foundation, because "we realised we could achieve a lot together".

Viva brand Latino

The Spanish-language market extends far beyond Latin America, of course, and is booming both in America, where Hispanics already account for 14% of the population, and Spain (Shakira performed in a concert promoting Madrid's bid to host the 2012 Olympics)—so it is well worth reconnecting with. But, more ambitiously, Shakira has also decided to market her new Spanish album to non-Spanish-speaking fans. Globalisation, she says, has "made frontiers between cultures very blurry", and "I wanted to integrate my two audiences". So far, the gamble is paying off. Sales of "Fijación Oral volumen 1" have already topped 2m. It is in the top five in such non-traditional Latin markets as Germany and Finland, and the top ten in France. Perhaps she should re-record volume two in Spanish.

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Women in business

The conundrum of the glass ceiling

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Why are women so persistently absent from top corporate jobs?

IT IS 20 years since the term “glass ceiling” was coined by the *Wall Street Journal* to describe the apparent barriers that prevent women from reaching the top of the corporate hierarchy; and it is ten years since the American government's specially appointed Glass Ceiling Commission published its recommendations. In 1995 the commission said that the barrier was continuing “to deny untold numbers of qualified people the opportunity to compete for and hold executive level positions in the private sector.” It found that women had 45.7% of America's jobs and more than half of master's degrees being awarded. Yet 95% of senior managers were men, and female managers' earnings were on average a mere 68% of their male counterparts'.

Ten years on, women account for 46.5% of America's workforce and for less than 8% of its top managers, although at big *Fortune* 500 companies the figure is a bit higher. Female managers' earnings now average 72% of their male colleagues'. Booz Allen Hamilton, a consulting firm that monitors departing chief executives in America, found that 0.7% of them were women in 1998, and 0.7% of them were women in 2004. In between, the figure fluctuated. But the firm says that one thing is clear: the number is “very low and not getting higher”.

In other countries the picture is similar. Not a single woman featured in *Fortune* magazine's list this June of the 25 highest-paid CEOs in Europe. Although Laurence Parisot, the chief executive of Ifop, an opinion pollster, was chosen recently to head Medef, the French employers' association, she is a rare exception. Corinne Maier, an economist with EDF, a French energy group, gave a scathing description of French corporate life in last year's bestseller, “Bonjour Paresse”. “Among the well-heeled battalions of executives”, she wrote, “only 5% are women.” Equality in the French workplace, claimed Ms Maier, “is a far-off dream.”

It is even farther off in Japan where, until 20-30 years ago, it was generally unacceptable for women to stay in the office after 5pm. One ambitious employee of a foreign multinational dared to hide in the ladies' room until the men had left before returning to her desk to finish her work. There has been some progress since. This year two women have been appointed to head big Japanese companies. Fumiko Hayashi is now chairman and CEO of Daiei, a troubled supermarket chain; and Tomoyo Nonaka, a former newscaster, has been appointed boss of Sanyo Electric. Nissan has a general manager for “diversity development” who, when asked recently what has changed least in Japanese business in the past 20 years, replied: “The mindset of Japanese gentlemen.”

In Britain, the number of female executive directors of FTSE100 companies rose from 11 in 2000 to 17 in 2004, according to Cranfield, a business school—17 women as against almost 400 men. A larger sample of British quoted companies found that 65% had no women on their board at all in 2003. No British woman has yet headed a big British company, although 44% of the workforce is female. Marjorie Scardino, CEO of Pearson, owner of the *Financial Times* which owns 50% of *The Economist*, is American, as is Laura Tyson, who heads the London Business School. Clara Furse, boss of London's stock exchange, was born in Canada.

It is progress of a sort—but of a glacially slow sort. The glass-ceiling phenomenon is proving peculiarly persistent. The top of the corporate ladder remains stubbornly male, and the few women who reach it are paid significantly less than the men that they join there.

This is despite the fact that companies are trying harder than ever to help women to climb higher. So-called “diversity programmes” (which are aimed at promoting minorities as well as women) are as common as diversity on the board is rare, and not just among service industries such as finance and retailing. No-nonsense formerly male clubs such as IBM (where two decades ago blue-suited identikit white men drove the company close to bankruptcy), GE (where the culture was not exactly female-friendly during the long rule of its legendary leader Jack Welch) and BP (where long hours at sea on windy oil rigs were a career booster) have appointed senior executives to be in charge of diversity. The three firms were the unlikely joint sponsors of a recent conference on “Women in Leadership”.

Diversity pays

Such companies no longer see the promotion of women solely as a moral issue of equal opportunity and equal pay. They have been persuaded of the business case for diversity. It has long been known that mixed groups are better at problem solving than like-minded ones. But the benefits of diversity are greater than this. Research by Catalyst, an American organisation that aims to expand “opportunities for women and business”, found a strong correlation between the number of women in top executive positions and financial performance among *Fortune* 500 companies between 1996 and 2000.

For some companies the push towards greater diversity has come from their customers. Lou Gerstner, the man who turned around IBM partly by promoting diversity within the company, has said “we made diversity a market-based issue...it's about understanding our markets, which are diverse and multicultural.” Lisa Bondesio, head of diversity in Britain for Deloitte, a big firm of accountants, says that diversity is “about how we differentiate ourselves in the marketplace.”

Other companies surprisingly fail to reflect the diversity of their customers. Procter & Gamble (P&G), for example, the manufacturer of Pampers nappies, Max Factor and Tampax, boasts in its 2004 annual report that it was ranked “among the top companies for executive women” by the National Association for Female Executives. Yet it has only two women on its 16-person board, both of them non-executives, and out of the 45 people it lists as its top “corporate officers” only three are women—ie, 93% of them are men. P&G is an enormously successful company and its management programmes are widely admired. Its shareholders may wonder if it would do even better if the gender ratios at the top were less skewed.

Many companies have been motivated by a desire to broaden the pool of “talent” that their human-resources departments can fish in. They worry in general about the ageing populations of the developed world. But particular industries have other reasons for broadening their recruitment trawl. The big accounting firms, for example, had their reputations seriously dented by the demise of Enron and its auditor Arthur Andersen just before they had an unprecedented increase in business as a consequence of the extra duties imposed by the Sarbanes-Oxley act. They became the “employer of choice” for far fewer graduates at a time when they needed to attract far more. A consequence is that they have had to extend their recruitment and promotion efforts to more women.

The management-consulting business, where firms tend to follow the career strategy of “up or out”, would like to hold on to many more of its women. But up or out can scarcely accommodate maternity leave, so it is no surprise that the industry loses twice as many women as men from the middle rungs of its career ladder.

Booz Allen Hamilton, a leading consulting firm, regularly wonders how to alter the fact that only 1-2% of its partners are women. Orit Gadiesh, the chairman of Bain, a rival, is a notable exception to the general exclusion of women from the top ranks. However, an earlier career in the Israeli army may have provided essential skills for her to reach the top.

Some firms' diversity programmes are working. At IBM, there are now seven women among its 40 top executives. GE says that 14% of its “senior executives” are now women, although none of them featured in the chief executive's recent reshuffle at the very top. The firm's six new business divisions are all headed by men.

By contrast, Alcan, a Canadian multinational metal manufacturer, has made extraordinary progress. Three out of its four main businesses are now headed by women (including the bauxite and alumina business). Steven Price, the company's HR director, says “it's been a long journey” to reach this point. Crucial has been “the tone at the top” and a determination to break down the perception that working long hours and wearing air miles like a “battle medal” are ways to get ahead in the company.

Why is it proving so difficult for women to reach the top of corporations? Are they simply less ambitious, less excited by the idea of limitless (albeit first-class) travel, late nights and the onerous responsibilities imposed by mounting regulation? A 2002 survey of top executives in American multinationals around the world did find them to be less ambitious, at least for the very top job: 19% of the men interviewed aspired to be CEO, whereas only 9% of the women did. At a slightly lower level there was less difference: 43% of women hoped to join a senior management committee, compared with 54% of the men. Catalyst, on the other hand, says that its research shows that women and men have equal desires to have the CEO job. “Ambition knows no gender,” says Ilene Lang, the president of Catalyst and once a senior executive in Silicon Valley.

Who's in the club?

Top businesswomen in America give three main explanations for why so few of them reach “C-level”—that group of executives who preface their titles with the word “chief”. First comes the exclusion from informal networks. In many firms jock-talk and late-night boozing still oil the wheels of progress. In America and elsewhere it has become almost traditional for sales teams to take potential clients to strip clubs and the like. These activities specifically exclude most women.

Yasmin Jetha, a Muslim of Asian origin who made it to the board of Abbey, a British bank and a FTSE100 company until it was taken over last year by Spain's Banco Santander, says that although she neither drinks alcohol nor supports a rugby team, she made a point in her career of participating in industry-wide events where the opportunities for exclusion are less. More and more women in business are forming their own networks, which also help to counter male clubbishness.

The second hurdle is what Ms Lang calls “pervasive stereotyping of women's capacity for leadership”. Everyone is unconsciously biased and there is strong evidence that men are biased against promoting women inside companies. This was a central point in the landmark 1989 case in America of *Price Waterhouse v Hopkins*, where Ann Hopkins sued her employer when she was not given a partnership. She eventually won her case in the Supreme Court. Since then some companies have begun to take special steps to guard against bias. Deloitte, for example, carefully scrutinises its pay and promotion decisions for bias, especially its list of new partners announced annually in June.

The third hurdle is the lack of role models. There are too few women in top jobs to show how it is done. Helen Alexander, the chief executive of The Economist Group and one of very few female CEOs to have succeeded a female CEO (Ms Scardino) says, however, that the role models that matter come earlier in life—at school or in the family. In addition, it seems to be important for many successful businesswomen to have had a supportive father.

Chris Bones, a senior human-resources executive with Cadbury Schweppes before he took over as head of Henley Management College at the beginning of this year, suggests another reason. The flattening of organisations in recent years, as layers of management have been stripped out, has meant that promotions now are far steeper steps than they used to be. This leaves fewer opportunities for people to re-enter the workforce at higher levels. And many women inevitably need to take time off during their careers. In America, there is evidence to suggest that more women with children under the age of one are taking time off work than was the case some years ago.

More and more too are withdrawing to care for elderly parents at a time when they are on the cusp of the higher echelons. Ben Rosen, a professor at the Kenan-Flagler Business School in North Carolina who has done research on the topic, says that many women bail out of corporate life to become self-employed consultants and entrepreneurs, roles where they can have greater freedom and autonomy to manage the rest of their lives. This may be reinforcing companies' long-held belief that they should invest less in women's careers because they are unlikely to stay the course.

Ms Maier's Gallic analysis of the issue is that French men spend more time at work than women, which "can be explained by their insatiable predatory instincts as well as by their casual approach to banal household chores." This leaves women with so much to do at home that they are more than twice as likely as men to work part-time, "which makes it all the more impossible to break the glass ceiling." In America a survey by the Centre for Work-Life Policy found that 40% of highly qualified women with spouses felt that their husbands did less work around the home than they created.

Another finding of the study was that qualified women leave work for a mixture of reasons—some pull them away (home and family life), and some push them away (the type of work, the people they are working with). In business, the push factors were found to be particularly powerful, "unlike, say, in medicine or teaching". The vast majority of women (93%) said they wanted to return to work, but found the options available to them "few and far between, and extremely costly". Across sectors, women lost 37% of their earning power when they spent three or more years out of the workforce.

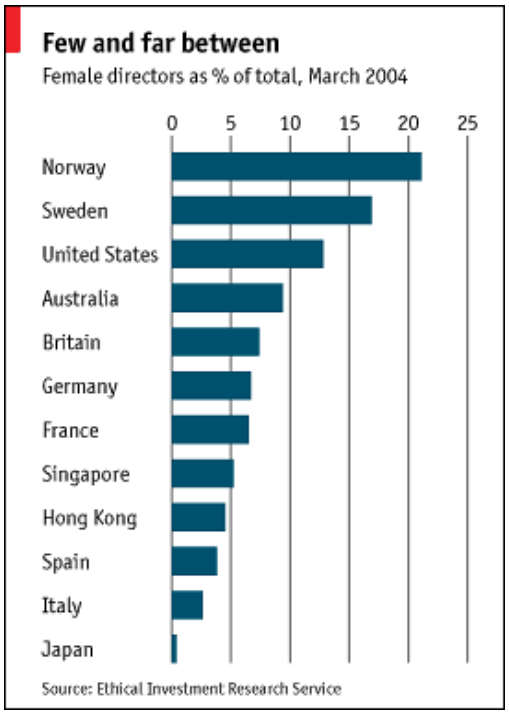
Very few (5%) wanted to return to the companies they had left, claiming the work they had been doing there was not particularly satisfying. In Britain, women are increasingly dissatisfied with work. A recent study by the University of Bath of female workers between 1992 and 2003 showed an overall decline in their stated levels of job satisfaction. For full-time female managers the decline was an above-average 6%. For men, job satisfaction over the same period went up.

The only category of female workers with a significant rise in satisfaction (of 19%) was that of part-time craft workers. It has become a lot more rewarding to blow glass or design gardens than to strive forever in a vain bid to reach the boardroom.

Change needed

Will time alone erode the gap between men and women? The steep decline among women in the popularity of MBA degrees, the *sine qua non* (at least in America) of a fast-track corporate career, suggests not. What is more, women with MBAs are fast dropping out of the workforce. One study in America found that one out of every three such qualified women is not working full-time. For men, the comparable figure is one in 20.

What can be done to improve the gender balance at the top? In Norway, legislation has been passed decreeing that by the end of 2006 all companies must have at least two women on their boards. Norway already leads the world in the number of women on its company boards (see chart).



In Britain a group of businesswomen has set up an organisation called WDOB, or Women Directors on Boards, whose aim is "to change the face of UK plc." Jacey Graham, its director, hopes to see the almost

static percentage of female executive directors in Britain more than double (to 10%) by 2010.

Ms Graham says that such change “won't just happen”. It needs specific intervention within companies—intervention that is led from the top. Opportunities for flexible working are particularly helpful in keeping women in the workforce. KPMG, one of the Big Four accounting firms, is aiming to double the percentage of its partners who are women (currently 13%). It says flexible working is a key measure to help it achieve this goal. Three-quarters of all requests for flexible working over the past 12 months have been from women.

Mentoring is also helpful. The WDOB has initiated a programme in which the chairmen and CEOs of 25 FTSE100 companies have agreed to mentor women who have been identified from other companies among the group as having boardroom potential. “The sad thing”, says Ms Graham, “is that some companies could not find a woman to put forward for mentoring.” Women are enthusiastic mentors of each other. Colleen Arnold, the general manager of IBM Europe, Middle East and Africa, mentors 27 people formally and more than 100 informally. “Mentoring”, she says, “is penalty-free.”

Chief executives are appointed by sub-committees of companies' boards, often advised by headhunters. More of them will be women when more members of the sub-committees are women and when fewer headhunters are old white men. As Catalyst's Ms Lang puts it: “There are so many women qualified to be on boards who are out there, under the radar screen.” Heidrick & Struggles, a firm of headhunters, says that boards may need to look beyond the top-management structures from which non-executive directors are usually drawn if they are “to increase markedly the ratio of female to male directors.”

Some think the task is particularly urgent. Chris Clarke, the America-based CEO of Boyden, a firm of headhunters, and a visiting professor at Henley Management College in England, argues that women are superior to men at multi-tasking, team-building and communicating, which have become the essential skills for running a 21st-century corporation. Maria Wisniewska, who headed a Polish bank, Bank Pekao, and is an international adviser to the Conference Board, says: “The links between the rational and emotional parts of the brain are greater in women than in men. If so, and if leadership is about making links between emotion and intelligence, then maybe women are better at it than men.”

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The revaluation of the yuan

How far will it go?

Jul 21st 2005 | HONG KONG
From The Economist print edition

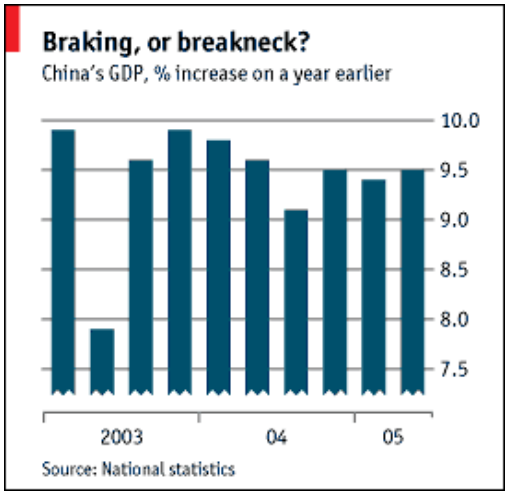
Imaginechina

China has revalued its currency, the yuan, and linked it to a basket of currencies. By itself, this will do little to slow the economy, but it may ease trade tensions

Get article background

SOONER or later, it was going to happen, and on July 21st it did. China abandoned the 11-year-old peg of its currency, the yuan, at 8.28 to the dollar. From now on, the yuan will be linked to a basket of currencies, the central parities of which will be set at the end of each day. And the currency has been revalued, although by nothing like as much as America and others have been demanding: the yuan's central rate against the dollar was shifted by 2.1%, to 8.11.

As *The Economist* went to press, it was not clear exactly how the new system would operate. The Chinese called it a "managed floating exchange-rate regime", which may well imply more management than floating. The fact that the Chinese have acted at all is important. But the eventual economic and political effects of the revaluation will depend on how far and how fast the yuan moves from now on.



In particular, such a slight revaluation is unlikely to do much to slow China's fast-expanding economy. The day before the currency regime changed, the country's official statisticians said that GDP in the second quarter of 2005 was 9.5% higher than a year before, more than most pundits had forecast and only a shade less than the figure for the same period of 2004 (see chart). Industrial production, ahead by 16.8% in the year to June, and investment in fixed assets, up by 25.4% in the first half, year on year, have both eased from their levels at the end of 2003, but remain strong. Inflation, as measured by the consumer-price index, is mild. It slid to 1.6% last month, down from 5%-plus a year ago.

In truth, the economy is slowing more markedly than these (highly suspect) official figures suggest. Many economists say that China has an institutionalised bias to over-reporting growth at the bottom of a cycle and under-reporting it at the top, to reduce the volatility of the numbers. Judged by physical indicators, such as electricity consumption or freight volumes, GDP growth probably peaked at over 12% in 2003 and should slow to 8% by 2006. Since China's macroeconomic growth is driven more by fixed investment than by household consumption (which dominates in the West), it is especially vulnerable to any slowing of corporate investment or public spending on infrastructure.

“In investment cycles,” says Andy Xie, Asia economist at Morgan Stanley, “the leading indicators are profit margins, product prices and property prices, which forecast corporate cash flow or ability to borrow.” These three are slowing. For the past five years, Chinese industrial firms have enjoyed record profit margins as revenue growth has outpaced the increase in wages and raw-material costs. In 2003 and 2004, industrial production and sales grew at an annual rate of nearly 30% in real terms, analysts estimate, but in 2005 the pace has slowed to around 15%. With commodity prices high, companies' margins are being squeezed: overheated industries such as cars, steel, cement and basic materials are suffering especially.

Property prices are also moderating after a period of extraordinary growth, particularly in big cities. Shanghai house prices, up by half since 1998 and by almost 10% in the first quarter of this year, have fallen back by 10-20% since mid-April. Transaction volumes in most urban centres have also dropped, because the government has imposed a property-sales tax and tightened mortgage requirements.

Overall, however, China seems to be managing the soft landing that it wants. The authorities have acted earlier and more decisively than they did in the mid-1990s, curbing growth before it gets out of hand. Policymakers have also been more sophisticated, targeting selected sectors with administrative restrictions while shifting to market-based measures, including last October's increase in interest rates, to rein in money and credit growth. A dearer yuan—but much dearer, probably, than after this week's move—would give the economy another downward nudge.

In addition, the economy is looking better balanced: there are signs that consumer spending is doing more to support the economy, alongside fixed investment and exports. Rising incomes are boosting households' spending power, lifting retail sales by 13% in the first half of the year, compared with the same period of 2004. And the countryside is finally playing a part: after six years of lacklustre growth, rural incomes rose by 12.5% in the first half.

That said, China's policymakers cannot afford to rest on their laurels. On the one hand, there is a risk that the economy will steam away again as spending for the Beijing Olympics in 2008 takes off. On the other, the vast amount of manufacturing capacity built up over the past few years means that a slightly sharper slowdown, perhaps triggered by lower growth in America, could tip the country back into deflation. Already, a staggering nine-tenths of manufactured goods in China are thought to be in oversupply.

In the short term, the biggest worry is that China becomes a victim of its own international success. Until recently China has been a powerful engine driving the world economy. If it slows, existing political and trade tensions could still worsen. Thus an unfortunate side effect of China's attempts to cool its domestic economy has been an exploding trade surplus, because import growth has softened while exports have remained robust. In June, China's exports rose by 30.6%, year-on-year, while imports grew by just 15.1%, widening the monthly trade surplus to $9.7 billion. The cumulative surplus for 2005 is now nearly $40 billion, more than for the whole of last year. This year's current-account surplus could reach 9% of GDP. “Just one year ago, China was the world's fastest-growing importer of heavy industrial products,” says Jonathan Anderson, chief Asia economist at UBS. “Today, the mainland is actually a growing net exporter, with shipments of not only textiles but also steel, other metals and chemicals accelerating visibly.”

Slowing imports (of everything but commodities) are bad news for international companies, at a time when those doing business in China are already suffering from increased competition and oversupply. And mainland firms are becoming aggressive exporters of everything from textiles and steel to

electronics and even cars. Ningbo Bird, based in Zhejiang province, is flooding Asia with cheap mobile-phone handsets it cannot sell profitably at home.

Revaluing the yuan should make some of the tensions created by all this less acute. American politicians, in particular, have been demanding a step in this direction. However, they have been demanding a much bigger stride. And investment is becoming as touchy an issue as trade has been. China is no longer using its huge stock of foreign-exchange reserves—over $700 billion—merely to buy American Treasury bonds, but to snap up physical assets too. The $18.5 billion contested bid by CNOOC, a big Chinese oil company, for America's Unocal is causing an uproar in Washington, DC. China's move this week may dampen calls for trade protection and revaluation for a while. But if China's domestic economy slows and thus becomes less supportive of global growth, such calls are likely to return soon.

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American monetary policy

The maestro's message

Jul 21st 2005
From The Economist print edition

More of the same from the chairman of the Fed

Reuters

Interest rates? Maybe they'll go this high

ALAN GREENSPAN is expected to retire as chairman of the Federal Reserve on January 31st next year. If so, the speeches he gave on July 20th and 21st (the second after *The Economist* went to press) will be the last of his so-called "Humphrey-Hawkins" testimonies to Congress. These, by tradition though no longer by statute, take place in February and July. The speeches are named for Senator Hubert Humphrey and Representative Augustus Hawkins, lawmakers who thought that the American people had a right to hear what the man who minds their money is thinking. What did they hear this time?

The economic growth which America is enjoying should be sustained, he said on July 20th, and inflation contained. The Fed raised its forecast of core inflation (1.75-2% this year and next, as measured by the price index for core personal-consumption expenditures) and lowered its forecast of growth (3.5% in 2005 and 3.25-3.5% in 2006), but only by a notch. On interest rates, the chairman simply repeated verbatim what the Fed has said for months: rates will rise at "a pace likely to be measured".

For many Fed-watchers, it is hard to imagine life after Mr Greenspan. But the chairman himself worries that investors are taking the future too much for granted. They seem sure, for example, that his inflation-fighting spurs will fit comfortably on the heels of his successor. And judging by the price investors are willing to pay for options contracts, which thrive on volatility, they also expect a period of calm in markets for stocks and bonds.

Confident of a tranquil future, investors have been happy to "reach out to more distant time horizons", Mr Greenspan said. They seem willing to buy long-term instruments without much compensation for the extra uncertainty the far future holds. This fall in the so-called "term premium", Mr Greenspan suggested, may be one reason why long-term interest rates have failed to follow his cues. Yields on ten-year Treasuries were higher in the spring of 2004, before he started raising short-term rates, than they are now, nine rate hikes later.

Because borrowing remains so cheap, the housing market in some regions is now charged with "speculative fervour", Mr Greenspan said. It is not a bubble, please understand, but "froth", which one popular dictionary defines as a collection of small bubbles, rather than one big one. But froth, another source points out, can also mean the "foamy slaver sometimes accompanying disease or exhaustion." The prospect that exhaustion might eventually strike overstretched households is still the chief worry hanging over the American economy. Personal saving fell to just 0.5% of disposable income in April and

May, the Fed says. Over the past two decades, it has averaged ten times that.

From time to time, the Fed will tempt people to do imprudent things, such as spending too much or saving too little, for the good of the economy as a whole. Easy credit was part of a deliberate, and largely successful, strategy to pull the economy out of the 2001 recession. But it has now developed its own momentum, pushed along by factors no one, not even the chairman, fully understands. It is long-term bond yields, and the mortgage rates allied to them, that give the economy its tempo. After almost 18 years in office, the monetary maestro seems to have lost control over these members of his orchestra.

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Psychology and stockmarkets

Mind your language

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Metaphors can move markets

THE Egyptian stockmarket has leapt this year, heartened by healthy economic growth. Oops. Let's rephrase that. Egypt's main market index has increased by about 75% this year as the country's economy has improved. *The Economist*, relentless in its devotion to unbiased reporting, has vowed to eschew “agent metaphors”—at least in this article.

Agent metaphors are those in which words normally applied only to animate beings are used in an inanimate context, such as the stockmarket. Research to be presented to the American Academy of Management's annual conference in Honolulu at the beginning of August suggests that agent metaphors have a strong effect on investors' behaviour. People expect animate activity to persist, and they transfer that expectation to inanimate market activity when it is expressed in agent metaphors.

So says Michael Morris, a professor of psychology at Columbia University, on the basis of research carried out on a bunch of college students. The students were asked to predict the performance of the NASDAQ index after seeing a chart and a short description of the previous day's movement. When the description contained agent metaphors, they predicted more of the same (up or down) than they did when it contained no metaphors or only “object” (inanimate) ones.

In a second leg to the experiment, the researchers examined transcripts of “Business Central”, a CNBC television programme, and found a strong correlation between agent metaphors and upward market movements, and between object metaphors and downward market movements. This, Mr Morris suggests, is a consequence of the way we are programmed to interpret trajectories. “Our brains associate upward trajectories with animacy and motive power, whereas we associate downtrends with inanimate objects and their obedience to the pull of gravity.”

Putting the two parts together, Mr Morris and his colleagues suggest that there is a built-in bullishness to markets. But don't blame the journalists and analysts who write the metaphors. Blame the fact that our hunter-gatherer ancestors' food could jump while their tools could not. And then wonder what might have happened had our forebears all been vegetarians.

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Citigroup

Prince on trial

Jul 21st 2005 | NEW YORK
From The Economist print edition

The honeymoon has just ended for Sandy Weill's successor

CHARLES PRINCE has not had an easy time atop Citigroup. Since he became chief executive two years ago, America's biggest bank has paid out billions of dollars in legal settlements and the Federal Reserve would like it to improve its internal controls before making acquisitions. Mr Prince has also had to cope with the presence of his controversial predecessor, Sandy Weill, now chairman. It is never nice to be the head of the clean-up crew.

Things aren't getting easier. In the past week, Citigroup has been dealt three blows. First, its president, Robert Willumstad, one of Mr Weill's last remaining lieutenants, resigned. Second came poor second-quarter figures, on July 18th. And third, it seems there may be something worse than Mr Weill's hanging around: his going. It has been reported that Mr Weill wants to bail out as chairman, in order to form a private-equity group. The earnings report and the news of Mr Weill took Citigroup's share price, no star performer on Mr Prince's watch, down by more than 4% at the start of this week.

In Citigroup's defence, there are reasons to discount all three events. Mr Willumstad's fan base was bigger outside the bank than in it, where many thought him cold and uninspiring. There is an irony in Mr Weill's eagerness to join a private-equity firm. The industry has the great attraction of being lightly regulated—and one of the biggest burdens on Citigroup has been the regulatory constraints resulting from Mr Weill's time in charge. As for the desultory earnings, Citigroup was not alone. J.P. Morgan Chase and Bank of America, its largest rivals, also disappointed.

Then again, those two banks often do. Citigroup has been thought to stand on a higher level. And not every big bank did poorly. Wells Fargo, America's fifth-largest bank, did particularly well once more.

Mr Weill's way of stoking growth was to buy other firms. Mr Prince has leaned the other way, recently selling off life-insurance operations and swapping a large asset-management division for Legg Mason's brokerage unit. Each time, the motive was primarily to remove a problem rather than seize an opportunity.

Should Mr Prince want eventually to buy something, once the Fed's concerns are dealt with, it will not be easy. David Hendler, of CreditSights, a research firm, thinks the vacant president's position could attract a smaller bank's chief executive, who would join after an acquisition. His choice would be Richard Kovacevich, a former Citigroup executive who has done an excellent job running Wells Fargo. Wells Fargo's large branch network west of the Mississippi would largely complement Citigroup's spread, while bolstering stability and reducing funding costs by replacing money raised on the capital markets with deposits. The thought has no doubt occurred to Mr Prince, too; but Wells Fargo would not be cheap and Mr Kovacevich is doing fine on his own.

Alternatively, Mr Prince may believe that with the regulatory cloud lifting, better days lie ahead. No other bank can boast Citigroup's diversity. Although its profit was down by 7% from a year before, it would have been far lower had a plunge in fixed-income trading not been offset by international consumer operations and other aspects of investment banking. Even now, Citigroup's return on equity is a respectable 18%. Pressure is building on Mr Prince to recapture the glory days of Mr Weill's early tenure, but methods that worked for building what was initially a limited consumer-finance company would not fit a premier universal bank.

Perhaps Mr Prince would do better to make a symbolic move. Mr Weill apparently wants to take away his Rolodex but retain certain Citigroup benefits (retirement perks, use of the company jet and so on). As a dealmaker, Mr Weill no doubt feels he must make grand demands, but if he really does want to leave, Mr Prince may be able to ditch a costly employee for nothing. It would show that he too could drive a

hard bargain, and reassure shareholders that someone was looking after their money. Even Mr Weill, as one of Citigroup's largest, might have trouble complaining about that.

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British financial regulation

Take a bow

Jul 21st 2005
From The Economist print edition

The FSA listens and learns

AS CLIMB-DOWNS go, this was as graceful as you'll see. Britain's Financial Services Authority (FSA) said on July 19th that it would change the way it does business in order to give firms suspected of wrongdoing a better hearing. Sir Callum McCarthy, the FSA's chairman, accepted all the recommendations of a review commission set up five months ago in response to widespread criticism. He said that the watchdog was determined to reach a point where firms subject to its discipline could say, however grudgingly, that the process had been fair. With these reforms—give or take a few caveats—he will probably achieve his goal.

The catalyst for this first serious overhaul of enforcement in the FSA's seven-year history was an action for endowment-policy mis-selling brought by the regulator against Legal & General (L&G), a big insurer. Where many had muttered, L&G fought back. An independent review tribunal in January halved L&G's fine, from £1.1m ($1.9m), and criticised the FSA's procedures. It said that the main problem was the regulator's failure to distinguish adequately between those who investigated a case (its enforcement division) and those who decided on its merits (the quasi-independent Regulatory Decisions Committee, or RDC).

This will now be done, in several ways. All communications between the enforcement team and the RDC will be disclosed to firms being investigated. Lawyers from the enforcement division who have not taken part in an investigation will review its findings before these go forward to the RDC, as a sort of “reality check”. The RDC itself will add two lawyers to its strength so that it need not ask the enforcement division for legal help. And face-to-face meetings at which the enforcers and the firm in question make their oral pitch to the RDC will permit more flexible discussion, with no secret recourse afterwards by the in-house team to the RDC.

These are the main changes, and both financial and legal folk seem broadly pleased. L&G's chief executive, Sir David Prosser, welcomes them with no apparent hard feelings. So does Simon Orton, a partner in the law firm that represented the insurer, Freshfields Bruckhaus Deringer: “The FSA have really been listening,” he says. But a few questions remain.

The first is how it will all work in practice. Decision-making, however improved, rests on the quality of the investigation that precedes it, as the FSA knows. Margaret Cole, its new director of enforcement, will be taking a hard look at the troops at her disposal. There are plans to add a seasoned veteran of “complex forensic investigations” to the team, but one man does not a Scotland Yard make.

Then there is the decision to take settlements out of the RDC's remit and hand them over to senior FSA executives, encouraging early settlement by establishing a fixed discount from any penalty imposed. While it is right to deter frivolous contests, settlements are important, as Mr Orton points out, both because they establish a scale of penalties for future application and because they send a message about what is considered good practice. Both might benefit from an outside eye.

A final unknown is the cost of these changes. The FSA reckons that, while a smaller proportion of cases may be referred to the RDC, those that are will be slower and costlier. This is likely to add some £2.5m to the FSA's budget, about 1% of the current total, which might be recouped by raising the fees charged by the FSA to the firms it oversees.

Sir Callum insists that the FSA is determined to remain a risk-based regulator using administrative procedures to correct significant abuses rather than become an enforcer plodding laboriously through the courts. London's light touch is its contribution to the global debate on financial regulation, and one secret of the city's success as an international financial centre. With its own ungrudging acceptance of

its critics' case for change, the FSA has given that regulatory model a new lease on life.

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Trade and culture

Scorn laws

Jul 21st 2005
From The Economist print edition

Why cultural biases may be the ultimate trade barrier

HOW do people decide whether to trust a country's investment climate, or the quality of its goods and services? Objectively, to a degree: places with skilled workers and high technology tend to make reliable stuff; countries with clear laws and clean politicians are more trustworthy. You might suspect, though, that plain prejudice also affects trade and capital flows. A trio of economists* from the University of Sassari, Northwestern University and the University of Chicago have found evidence of precisely that.

The three took a look at trade and trust inside the European Union. EU countries that trust each other for cultural reasons tend to trade with each other more than with other EU partners; the same is true of cross-border investment. If cultural biases are skewing economic patterns even within the EU—where education levels are high and where a common market has been expanding for decades—they are potentially even more important in other parts of the world.

As a first crack, the trio looked at Eurobarometer surveys, which frequently ask EU citizens how much they trust people from various countries. Most EU members trust Germans; fewer trust Italians. To the authors, it is much more noteworthy that different countries give different answers: for instance, Germans trust the British more than the French do. When two sets of people gauge a country's reliability differently, cultural preconceptions may be at work.

Because trading with another country may also breed trust, the economists had to sort out which causes the other. So rather than rely only on Europeans' direct answers about trust, they looked at these in conjunction with three long-run factors that might affect prejudices—religion, a history of wars and widespread genetic differences—and used these to try to isolate the effects of cultural biases on trust and trade.

The economists find that cultural biases do drive wide variations in trust among European countries. And after accounting for other factors (such as geography) that also foster trade, they claim to show that culturally driven trust does shape trade and investment patterns. A one standard-deviation increase in their trust measure is associated with a boost to trade between two countries of 30%, and a rise in bilateral foreign direct investment of as much as 75%.

They also find that high education levels and more information tend to lessen these effects (no doubt by correcting misconceptions about unfamiliar countries). So ignorance, it seems, does even more damage than free traders thought: it not only limits trade by fostering protectionism, but also distorts the trading that does occur.

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* “Cultural Biases in Economic Exchange”, by Luigi Guiso, Paola Sapienza and Luigi Zingales, May 2005.

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Mobile phones and consumer finance

Pay with a wave of your phone

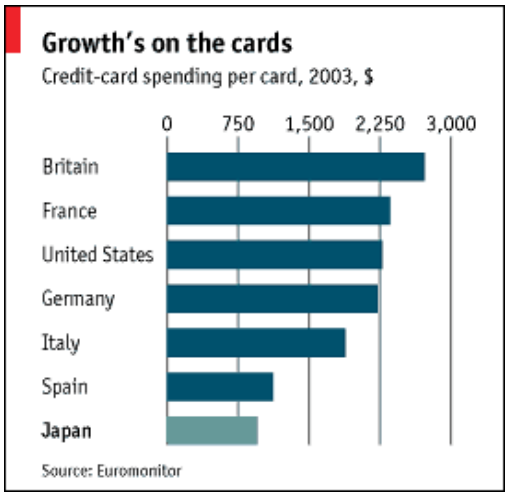
Jul 21st 2005 | TOKYO
From The Economist print edition

Japan's leading mobile operator believes it has found the next big thing

IS YOUR mobile phone about to swallow your wallet? That is what NTT DoCoMo, Japan's top mobile operator, is betting—and where it leads, others often follow. In 1999, DoCoMo pioneered internet access via mobile phones through its i-mode service, and in 2001 it was one of the pioneers of third-generation (or 3G) technology. Now it believes the next big thing is using phones to pay for things, by embedding a credit card into a wireless chip built into each handset. This will mean bringing together two industries: mobile telecoms and consumer finance. Oddly, Japan is very advanced in the former and very backward in the latter. But that could be just the combination that is needed to make DoCoMo's plan work.

Although it has yet to announce its plans formally, DoCoMo has been quietly putting the pieces in place in recent months. Over 4m of its 51m subscribers now carry handsets equipped with FeliCa, a technology developed by Sony that DoCoMo incorporated into some of its handsets last year. FeliCa allows a small chip to be read wirelessly by a nearby scanner. FeliCa-based cards are already used as wireless train tickets by millions of commuters, and from next year it will be possible to use a FeliCa-enabled handset instead. DoCoMo is also a partner in Edy, a FeliCa-based "micropayment" scheme that allows small purchases to be made using funds stored in the handset. Edy scanners, which let people pay for things by waving their handsets, are used in over 20,000 retail outlets in Japan, from convenience stores and cafés to pharmacies and bookshops. The average transaction, however, is still small: just over ¥600 ($5.40).

DoCoMo has far grander ambitions for mobile payments. In April it teamed up with Sumitomo Mitsui Banking Corporation (SMBC), Japan's third-largest bank, by paying ¥98 billion for a 34% stake in the bank's credit-card division, Sumitomo Mitsui Credit Cards (SMCC), Japan's number-two credit-card issuer. DoCoMo has also held talks with Japan Credit Bureau, the top credit-card firm, with a view to buying a 10% stake. Now it is preparing to distribute scanners that can read credit-card details from FeliCa-equipped handsets to as many retail outlets as possible. The exact nature of the agreements that SMCC and DoCoMo have struck with retailers is unclear, but it seems that the cost of these scanners will be subsidised.



Why the sideways move into consumer finance? Having withdrawn from unprofitable forays overseas, DoCoMo has plenty of capital to invest and is looking for new sources of growth at home. It also wants

to differentiate itself from KDDI, the increasingly competitive number-two operator. (Vodafone is a distant third.) Credit cards are far less popular in Japan than in other rich countries: the average card is used for less than $1,000 of purchases a year, compared with more than twice that in Britain, France, Germany and America (see chart). Building cards into the handsets of Japan's mobile-phone users, who are ever eager to experiment with new tricks, seems a good way to get them to buy more on credit. DoCoMo would then benefit financially through its stake in SMCC.

Perhaps even more important for DoCoMo is that embedded credit cards will make its handsets more attractive, just as built-in cameras and other features have done. Pricing schemes that tie handset and credit card together might also help to keep mobile subscribers loyal from next year, when they will be allowed to keep their number if they switch operators.

For its part, SMBC, like all of Japan's megabanks, is eager to expand into consumer finance—and retail banking of all sorts. It has reduced its bad-loan mountain to a reasonable size but still desperately needs new sources of profit. It recently lost a fight with Mitsubishi Tokyo Financial Group, the second-biggest bank, for the hand of UFJ, the number four, which although weak has a decent retail business.

Will it work? Security is one concern. If your phone is also your wallet, it is even more of a pain if it gets stolen. DoCoMo has tackled this by making it possible to disable the FeliCa chip on a stolen handset remotely. One handset even has a fingerprint scanner to prevent unauthorised use.

Whether DoCoMo succeeds will also depend on how it treats rival credit-card issuers and mobile operators. So far it has been cagey about strategy, but it apparently plans to dominate the market by launching first and signing up the best partners, rather than by shutting out other firms technologically. So the new scanners, despite being subsidised by SMCC and DoCoMo, will probably also work with FeliCa-equipped handsets from KDDI and Vodafone, which are expected in the autumn. But if DoCoMo can get the top two credit-card issuers on its side, says Kirk Boodry, a telecoms analyst at Dresdner Kleinwort Wasserstein, its rivals will be left with less-attractive partners, and therefore less appeal to consumers.

If the idea of mobile payments takes off in Japan, might operators in other countries follow in DoCoMo's footsteps once again? Maybe not, because Japan is such a special case. Not only are credit cards far more widely used in Europe and America; the mobile-telecoms industry is also far less vertically integrated. DoCoMo controls every aspect of its handsets and networks, whereas operators in other countries use technology built on industry standards. This means that new services require broad industry support, which can take years to organise, before they can be incorporated into handsets and networks. In the case of mobile payments, such agreement has proved elusive. Simpay, a mobile-payments initiative backed by several big European operators, recently collapsed. So even if DoCoMo's ambitious plan succeeds, operators elsewhere could find it hard to imitate. “I don't think this is a global trend,” says Mr Boodry. “I think it's going to be strictly in Japan.”

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Economics focus

The rational response to terrorism

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How people respond to terrorist attacks

CARRIED out by fanatics intending to kill, maim and spread fear, suicide-terrorism is not an obvious subject for economic analysis. The greatest costs are paid in blood, not mere money. Yet terrorists aim not only to kill, but also to disrupt ordinary life. How far do they succeed? Lots of pundits try to gauge the public mood after an attack, and it often seems that one man's guess is as good as another's. Are the citizenry defiant, resigned or intimidated? Here, economists can help, for it is their instinct to look at what people do, not what they say; to trust numbers, not anecdotes; and to look for clues in the inflections of mass behaviour, not the hasty reflections of the mass media.

Gary Becker, a Nobel laureate at the University of Chicago, is well known for applying economic methods to realms of life that most of his colleagues consider off limits. Terrorism is one such area. In a working paper* circulated last year, he and Yona Rubinstein, of Tel Aviv University, examine how the general public responds to the threat posed by suicide-bombers.

The response is sometimes plain. The number of miles clocked up by passengers on America's domestic airlines fell by 16 billion, or 32%, between August and October 2001, according to America's Bureau of Transportation Statistics. Even two years after the attacks of September 11th, air travel had yet to regain its 2001 peak.

Was this an overreaction? The response certainly appears greater than the objective risks would warrant. According to Mr Becker, the public reacts to terrorism much as it responds to outbreaks of rare but fearsome diseases, such as BSE or “mad-cow disease”. The chances of infection may be slight, but that does not stop people shunning beef *en masse*.

While such reactions are easy to understand, they are difficult for economists to explain. Perhaps people are simply ignorant of the true probabilities involved. But this argument, say Mr Becker and Ms Rubinstein, misunderstands the way terrorism works. Killing is a means of spreading fear. Terrorists introduce a small risk of violent death into humdrum daily activities, such as taking a bus. Even if that tiny risk is never realised, people suffer from the terror it sows. Mr Becker and Ms Rubinstein argue that it is not the risk of physical harm that moves people; it is the emotional disquiet. People respond to fear, not risk.

On November 29th 2001 a suicide-bomber killed three Israelis and wounded nine others on a public bus heading for Tel Aviv. According to Mr Becker and Ms Rubinstein, Israel's public buses suffered an average of one such attack a month in the year that followed. Not surprisingly, the bombs had a profound effect on passengers, reducing the use of public buses by about 30%, the two economists calculate.

But this large overall response masks some pronounced differences between passengers. Casual users, who bought their tickets on the day of travel, were much likelier to stay away after bombings: each attack cut their use of buses by almost 40%. But regular travellers, who bought weekly or monthly bus passes, were largely undeterred.

This is puzzling. It appears that neither the casual users nor the regular passengers calibrated their response to the added risk they faced. Suppose the frequency of attacks on buses doubled from one month to the next. Passengers could take half as many trips and restore the same objective risk they tolerated a month earlier. This is as true for people who normally travel twice a day as it is for people who normally travel twice a month. But passengers do not react in this way. Some abandon buses altogether, others take as many trips as before.

Perhaps regular passengers ride out of necessity, not choice. If they cannot afford a car or a taxi, they will take the bus whatever their feelings about it. But Mr Becker and Ms Rubinstein found a similar reaction to terrorism among patrons of big-city cafés, which are also common targets of suicide-bombers. As the number of fatalities increased, casual users stayed away; habitués spent as much money in cafés as ever.

Habitual bravery

Fear of terrorism may or may not be irrational. But it is not irresistible, Mr Becker and Ms Rubinstein conclude. With some effort, people can overcome their fear, but they will do so only if it is worth their while. For the dedicated patron of coffee shops, it is worth conquering their qualms, since the effort pays off every time they enjoy their favourite haunts. For the casual user, it is not. The threat of terrorism spoils something they only enjoyed on occasion anyway. Likewise, for someone who takes the bus twice a day, overcoming a fear of terrorism is an “investment” well worth undertaking.

The behaviour of bus riders and café customers suggests that this investment in courage is a fixed cost, not a variable one. People do not fight their fear each time they step on a bus; they choose to overcome it once and for all, or not at all. Once a person has come to terms with terror, it makes little difference to him whether he gets on a bus twice a day or once a day. He may be subjecting himself to a slightly higher risk of actual attack, but he is not adding anything to his fear of such a catastrophe. And it seems to be the fear, not the risk, that sways people.

In the morning rush hour, 500 tube trains serve London. Every weekday, 6,800 buses are scheduled to run in the city. Only three trains and one bus were bombed on July 7th. But anyone who rode on public transport on July 8th will have thought about the danger. Even if only a tiny proportion of Londoners ever fall victim to terrorism, they are all touched by it. Whether or not they are terrorised by it is a choice only they can make.

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* “Fear and the Response to Terrorism: an Economic Analysis”, August 2004.

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Pain perception

Sex and drugs

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Superstock

Men and women seem to perceive pain in different ways. That may mean they sometimes need different pain-relief drugs

MALES and females respond to pain differently, even as children. In most places, boys are expected to show a stiff upper lip when they get hurt, while in girls wailing is, well, girlie. In part, this difference is learnt—or, at least, reinforced by learning. But partly, it is innate. It is hard, for instance, to blame upbringing for the finding that boy and girl babies show different responses to pain six hours after birth, or that male rats are more long-suffering than females. It is also life-long. Ed Keogh of the University of Bath, in England, and his colleagues have found that women report feeling pain in more bodily areas than men, and also feel it more often over the course of their lives.

Many researchers are therefore concluding that genetics underpins at least some of the difference, and that females really do feel pain more than males. Indeed, some go further. They think that the way men and women experience pain is not only quantitatively different, but qualitatively different, too. In other words, men's and women's brains process pain using different circuits. Some pain scientists therefore think it is only a matter of time before painkillers are formulated differently for men and women in order to account for this difference.

Jeffrey Mogil, director of the pain genetics laboratory at McGill University in Montreal, is one of the leading advocates of such “pink and blue” painkillers. Pick a disease at random, he says, and the chances are that females and males will handle the pain associated with it differently. That seems to be true in mice, at least. When new mouse “models” of human disease are created by genetic engineers, Dr Mogil and his colleagues are often asked to test the engineered mice for their responses to pain. They consistently find differences in the way the mutant, diseased mice and their non-mutation-carrying brethren respond to painful stimuli. But, generally, those differences are seen more strongly in one sex than the other.

A prescribing headache

The latest example of such a difference is in migraine, a condition that is three times more common in women than in men. In 2004, a group of researchers led by Michel Ferrari of Leiden University in the Netherlands reported that they had created what they believed to be the first mouse model of migraine.

Since some researchers argue that migraine is associated with heightened sensitivity to pain, they sent their creation to Dr Mogil for testing. He stresses that his data are preliminary. However, he does find a lowered pain threshold in the mouse migraine model compared with healthy mice—but only in females.

Dr Mogil is now convinced that the pain response in men and women is mediated by different brain circuits—and not only because of his own observations. Obstetricians and gynaecologists have long known that certain drugs are particularly effective in women. Mothers in childbirth prefer nalbuphine to morphine, for instance. Men, however, report the opposite preference when they are in pain.

Both nalbuphine and morphine work by stimulating the brain's endogenous-opioid receptors (endogenous opioids are the molecules that opium-derived drugs mimic). But opioid receptors come in several varieties, two of the most important of which are known as mu and kappa. Morphine binds to the mu receptors, while nalbuphine stimulates the less well-studied kappa receptors. Kappa-receptor agonists, as molecules such as nalbuphine are known, appear to have little or no pain-relieving effect in men.

Two years ago, Dr Mogil identified the first gene known to be involved in modulating pain thresholds in women. Variations in this gene have no effect on men's responses to a kappa-receptor agonist called pentazocine, but they do affect the response in women. The protein produced by this gene, melanocortin-1 receptor, also affects hair and skin colour. Working in collaboration with Roger Fillingim of the University of Florida, Gainesville, Dr Mogil found that redheaded women with fair skin—who have a particular version of the receptor—have a heightened response to pentazocine.

Jon Levine and Robert Gear, of the National Institutes of Health Pain Centre at the University of California, San Francisco, also think that there are fundamental differences between the sexes when it comes to pain. They have explored the effects of nalbuphine on post-operative pain in men and women who have had their wisdom teeth removed. The results suggest that kappa-opioid agonists not only fail to alleviate pain in men, they can actually make it worse.

Dr Gear and Dr Levine believe that as well as an analgesia (ie, pain-suppression) circuit, the brain contains what they call an anti-analgesia circuit—one which, when activated, pumps pain up. They have shown that which circuit is activated depends not only on the type of receptor a drug acts on, but also the dose given. Among their dental patients, low doses of nalbuphine had a short-lasting analgesic effect in the women, but profoundly enhanced pain in the men. However, when they added a low dose of naloxone—a drug that blocks all types of opioid receptor—to the nalbuphine, the sex difference disappeared and pain relief was significantly enhanced in everyone. After refining the relative proportions of the two drugs in the mixture, they have succeeded in finding (and patenting) a combination that is effective in both sexes.

Nor is it only the mechanism of pain perception that differs between the sexes. Dr Keogh and his colleagues argue that there are significant differences in the ways men and women cope with pain, as well.

This conclusion is based on studies involving hospital patients, as well as others on volunteers who were exposed to a painful stimulus, such as an ice-water arm-bath. Using this, the researchers were able to measure the point at which people first notice pain, as well as their tolerance—the point at which they can no longer stand it. Men were able to minimise their experience of pain by concentrating on the sensory aspects—their actual physical sensations. But this strategy did not help women, who focused more on the emotional aspects. Since the emotions associated with pain, such as fear and anxiety, tend to be negative, the researchers suggest that the female approach may actually exacerbate pain rather than alleviating it.

Dr Keogh, a psychologist, sees this difference as an effect of social conditioning—and uses it to point up the dangers of under-estimating social influences in favour of those of the genes. But it is not obvious why such male and female “coping strategies” should not be underpinned by genetics, in the same way that perceptions are.

The evolutionary reason why men resist pain better than women is, however, a mystery. After all, pain is there to stop you doing bad things to yourself. Perhaps it is because males and females are exposed to different sorts of pain. Males, for instance, get into fights much more often than females do, and thus get wounded more often. On the other hand, they do not have to undergo the visceral pain of childbirth. And perhaps a willingness to tolerate less pain than men do helps to explain why women live longer than their menfolk.

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Modelling conflict

Rules of engagement

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Scientists find surprising regularities in war and terrorism

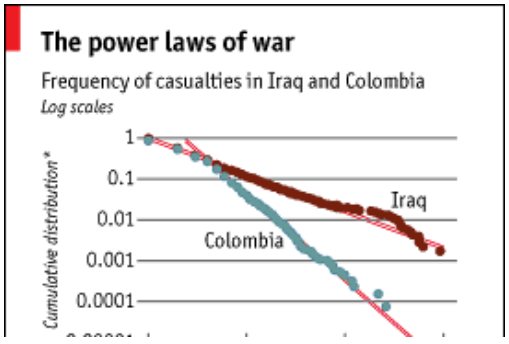
ON JULY 19th, IraqBodyCount, a group of academics who are attempting to monitor the casualties of the conflict in that country, published a report suggesting that almost 25,000 civilians have been killed in it so far. In other words, 34 a day. But that is an average. On some days the total is lower, and on some higher—occasionally much higher.

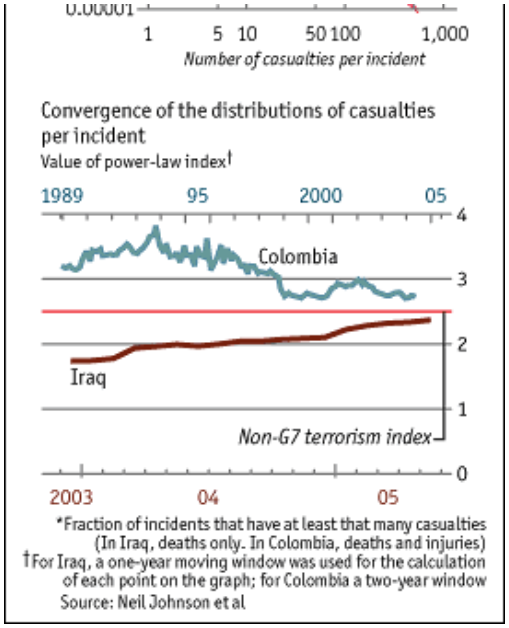
It is this variation around the mean that interests Neil Johnson of the University of Oxford and Michael Spagat of Royal Holloway College, London. They think it is possible to trace and model the development of wars from the patterns of casualties they throw up. In particular, by analysing IraqBodyCount's data and comparing them with equivalent numbers from the conflict in Colombia, they have concluded that, from very different beginnings, these conflicts are evolving into something rather similar to one another.

The groundwork for this sort of study was laid by Lewis Fry Richardson, a British physicist, with a paper on the mathematics of war that was published in 1948. Using data from conflicts that took place between 1820 and 1945, Fry Richardson made a graph displaying the number of wars that had death tolls in various ranges. The outcome was startling: rather than varying wildly or chaotically, the probability of individual wars having particular numbers of casualties followed a mathematical relationship known as a power law.

Power-law relationships crop up in many fields of science and are often a characteristic of complex and highly interacting systems (which war certainly is). Earthquake frequencies and stockmarket fluctuations are both described by power laws, for example. Power laws also have properties that make them different from statistical distributions such as the normal curve (or bell curve, as it is familiarly known). Unlike a bell curve, a power-law distribution has only one tail and no peak. Small tremors occur frequently, but over a few decades enormously large earthquakes will also occur with reasonable frequency. As will deadly wars and attacks.

In May, Aaron Clauset and Maxwell Young, of the University of New Mexico, modified Fry Richardson's method to look at terrorist attacks. Instead of total casualties in a conflict, they plotted the deaths from individual incidents. Again, they got a power law. Actually, they got two. Power-law relationships are characterised by a number called an index. For each ten-fold increase in the death toll, the probability of such an event occurring decreases by a factor of ten raised to the power of this index, which is how the distributions get their name. Terrorist attacks within G7 countries could be distinguished from those inside non-G7 countries by their different indices. G7 countries were more likely to suffer large attacks. Indeed, in an article published earlier this year by Britain's Institute of Physics, Mr Clauset and Mr Maxwell said that “if we assume that the scaling relationship and the frequency of events do not change in the future, we can expect to see another attack at least as severe as September 11th within the next seven years.”





Dr Johnson and Dr Spagat took the method a couple of steps further. They extended Mr Clauset's and Mr Maxwell's idea of looking at the sizes of individual incidents within a campaign to other sorts of conflict, and also looked at how those conflicts have changed over time. As they report in a paper published recently in *arXiv*, an online archive, they found, yet again, that the data follow power laws. And for both of the wars they studied, the indices of those power laws have been approaching the value Mr Clauset and Mr Maxwell found for non-G7 terrorism, though from different directions. In other words, for the war in Iraq, the data indicate a transition from an index characteristic of more lethal, conventional war between armies to one closer to terrorism. No real surprise there, perhaps, though it is interesting to see perceptions on the ground reflected in the maths. For the Colombian conflict, though, the data show the opposite, a transition from a war characterised by smaller, less cohesive forces to a more unified rebel front—something that ought to worry Colombia's government.

Dr Johnson and Dr Spagat put forward as an explanation a mathematical model they have developed. It consists of a group of self-contained “attack units”, each of a particular strength. Such units can join together or fragment into smaller pieces. Over time, an equilibrium of joining and breaking is reached, but where that equilibrium lies depends on the strength of any central organisation. The model explains the power-law behaviour seen in both conventional wars and terrorist attacks. Different rates of fragmentation lead to different indices—conventional war is fought with robust armies that are unlikely to fragment, while terrorists are more likely to have shifting alliances.

Dr Spagat points out that, if their model is correct, it makes casualty data useful in a situation where intelligence about the enemy is hard to come by—as seems to be the case in Iraq at the moment. For instance, it should be possible to distinguish an insurgency with a rigid command structure from a group of smaller, randomly linked units. Learning about the distribution of earthquakes may not prevent the Big One, but for war and terrorism, power-law statistics may teach governments something about how to defeat the enemy, and make war less deadly.

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Avian influenza

Malign influences

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More deaths from bird flu in Asia

THE first human deaths from avian influenza in Indonesia were announced on July 20th by the country's health minister, Siti Fadillah Supari. She said that three members of a family living on the outskirts of Jakarta had been killed in the past ten days. Human cases of bird flu in Indonesia have been reported since June, but these are the only known fatalities.

Normally, people who catch the virus, which has been rampaging through the domestic fowl of South-East Asia since 2002, do so directly from birds. In this case, although the World Health Organisation had yet to confirm Dr Supari's announcement when *The Economist* went to press, its officials are worried there is no obvious avian source for the infection. That, plus the fact that the victims lived together, raises the possibility that one of them gave it to the others. Dr Fadillah was keen to play down the idea of such human-to-human transmission, but more than 300 people who have had contact with the three victims are being tested for the virus just in case, and plans are under way to test animals within a 20km radius and slaughter those that are infected.

Virologists have long been concerned about bird flu, worrying that the virus which causes it might mutate in a way that allowed it to be transmitted easily from person to person. This, they fear, might result in a catastrophic epidemic among humans, similar to the one just after the first world war that killed 20m-40m people.

It is by no means certain that such a mutation has happened in the Jakarta cases, even if they do turn out to have been transmitted between family members. According to Ian Jones, a professor of virology at the University of Reading, in England, it is possible that there could have been transmission between humans simply because one of the family members was carrying unusually large amounts of the unmutated virus.

In addition, Dr Fadillah says that the genetic sequence of the virus in question has been obtained, and that it was indeed a conventional one. However, some virologists urge sceptical caution. Peter Openshaw, head of respiratory infections at the National Heart and Lung Institute in London, said that he would want to see any statement about the genetic sequence of the virus—and its difference from other isolates—coming from a scientist rather than a politician.

On top of this, a paper in this week's *Proceedings of the National Academy of Science* reported a different sort of mutation. It suggested that the virus circulating in the avian population has been evolving into a form less lethal to birds. That raises concerns that birds which have survived the disease may act as a reservoir—and that if migratory wildfowl caught it, they could carry it out of South-East Asia.

The British government, meanwhile, announced it would stockpile 2m doses of a vaccine against the strain of bird flu currently in circulation. It is hoped these would confer resistance to any human virus that might emerge and could be used to protect medical workers in an outbreak.

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SCIENCE AND TECHNOLOGY

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Environmental science

Going to extremes

Jul 21st 2005
From The Economist print edition

A novel design for the new British Antarctic research station

Reuters

Which way to the chairlift, dude?

BABA YAGA, a Russian witch, was supposed to have lived in a hut that could walk around on legs. In the trackless wilderness of the *taiga*, that was a useful attribute. It would be equally useful in the similarly trackless wilderness of Antarctica, at least if you were building on an ice sheet that flows into the sea at a rate of two metres a day. There, the ability to get up and walk inland in order to avoid an early bath would indeed be precious.

And that was exactly the challenge that faced the bidders for the contract to build Halley VI, the British Antarctic Survey's new base. Halleys I-IV have already ended up in the Southern Ocean, and Halley V is threatened with a similar fate. But the buildings of Halley VI will be able to ski from place to place, though they will have to be towed by tractors. The design, by Faber Maunsell and Hugh Broughton Architects, narrowly beat one that would actually have walked around under its own power.

The winning design consists of pods that can be rearranged as and when necessary. Laboratories, for instance, can be converted to bedrooms, and bedrooms to laboratories as demands on the station change. The pods will be arranged around a central meeting place that contains a climbing wall, a library and (most important for the sanity of the occupants, who will be cut off for nine months a year) a snooker table.

Construction is expected to start in January 2007 and the station will be handed over to the scientists in December 2008. Sometime around 2010, therefore, the World Snooker Champion may come from Antarctica.

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Robert Oppenheimer

Destroyer of worlds

Jul 21st 2005
From The Economist print edition

AP

Two new books show how Robert Oppenheimer's early achievements and triumphs later turned into failure and ruin

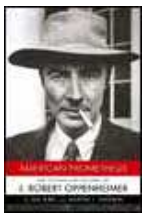
ALONGSIDE Albert Einstein, Robert Oppenheimer was the 20th century's most famous physicist. But while only scientists properly understand Einstein's elegant theories, Oppenheimer's achievement is far more accessible. As scientific director of the Manhattan Project at Los Alamos, he gave America the atom bomb, and changed the world forever.

Kai Bird and Martin Sherwin, the latter a founding director of the Nuclear Age History and Humanities Centre at Tufts University, describe a complicated man who hovered for years on the edge of a mental breakdown. Warm and generous with his friends, he could be cruelly dismissive of his intellectual rivals. A devotee of dry martinis and fine art, Oppenheimer's literary tastes ran to Proust and ancient Hindi scriptures, which he read in the original Sanskrit. But he also had a strong ascetic streak, and yet, while his quick mind and artful command of language charmed many, to others he seemed pretentious.

Oppenheimer was a first-rate physicist and a charismatic leader. He helped build up America's first great physics school at the University of California, bringing the new theories of quantum mechanics to the United States. But his catholic tastes also made him restless. Although he made several important contributions to physics, having sketched a rough solution to a problem, he would move on, skipping the rigorous mathematical work that might have earned him a Nobel prize.

Oppenheimer's directorship of Los Alamos required both the scientific skills to understand every aspect of the bomb's design and the human touch necessary to manage the thousands of scientists and engineers living, in total secrecy, atop an isolated mesa in the wilds of New Mexico.

American Prometheus: The Triumph and Tragedy of J. Robert Oppenheimer
By Kai Bird and Martin J. Sherwin



Knopf; 736 pages; $35

Buy it at
Amazon.com
Amazon.co.uk

The Ruin of J. Robert Oppenheimer and the Birth of the Modern Arms Race
By Priscilla J. McMillan

Viking; 384 pages; $25.95

Buy it at
Amazon.com
Amazon.co.uk

After the Soviet Union broke America's atomic monopoly in 1949, several prominent scientists and politicians favoured the development of the hydrogen bomb, a fusion weapon hundreds of times more powerful than the bombs that the Manhattan Project had built. Oppenheimer—by then America's chief atomic adviser and tormented by doubts about the direction of post-Hiroshima geopolitics—disagreed. The fusion bomb was a genocidal weapon with no military use, he argued. International openness was the only way to prevent a dangerous arms race. But Oppenheimer was not always the penitent scientist of popular imagination; he supported the development of small, tactical atomic weapons for use against the Soviets in Europe.

Still, his opposition to the hydrogen bomb earned him powerful enemies, and his politics gave them the ammunition to destroy him. Both books explore Oppenheimer's early dalliance with communism, and both exonerate him of the charge that he was a subversive, concluding that, at most, he was a “fellow-traveller” who never actually joined the Communist Party, and that he drifted away in the late 1930s. Such subtle distinctions were lost in the hysterical post-war atmosphere. In 1954 Oppenheimer was called up before the Atomic Energy Commission, subjected to a farcical show trial and stripped of his security clearance.

Priscilla McMillan, a historian at Harvard University, has made the hearings the centrepiece of her book. She laments the opportunity that was lost with Oppenheimer's removal, pointing out that many of his recommendations would later be adopted in arms-control talks between America and the Soviet Union.

Oppenheimer's flaws—his arrogance, his occasional cruelty and his tendency to go to pieces under pressure—along with his obvious genius are carefully brought out in both books. Whether it is true, as Messrs Sherwin and Bird have written elsewhere (though not in their book) that America would not face the threats it does today had it refused to develop nuclear weapons, is debatable. What these two books do offer is a satisfying picture of a man who believed that the sciences and the humanities were complementary, not separate, and who proved that science affects, and is affected by, all the rest of human experience.

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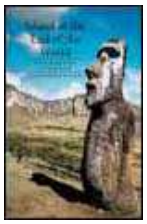
Easter Island

Stones of contention

Jul 21st 2005
From The Economist print edition

MANY books about Easter Island are superficial fluff, ranging from breathless pop-archaeology all the way through to outlandish New Age claims of mystic energy fields and alien influence. There is no such flummery in Steven Fischer's new book. As befits the head of the Institute of Polynesian Languages and Literatures in Auckland, New Zealand, he has produced a scholarly and readable account of the island's turbulent history.

Island at the End of the World: The Turbulent History of Easter Island
By Steven Roger Fischer



Reaktion Books; 284 pages; $24.95 and £14.99

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Amazon.com
Amazon.co.uk

Records of its ancient history are fragmented and unreliable, surviving only as archaeological evidence in caves and settled areas and as half-remembered folk traditions passed down between the generations. Yet Mr Fischer expertly musters these meagre resources to tell the story of the island's early history, when a large and fairly advanced civilisation was brought low by ecological collapse as the island was systematically denuded of trees, which were cut down for firewood, building material or to make canoes. Agriculture collapsed, villages were abandoned and, probably, thousands of islanders starved. First contact with Europeans—a Dutch ship landed in 1722—may have inadvertently killed thousands more through the introduction of new diseases.

But the bulk of the book deals with Easter Island's later and better-documented history. It would be almost 50 years before another ship visited; yet in that time the devastated island had erupted into open warfare. Most of the famous stone statues were toppled (today, many have been restored). By the time the Spanish arrived in 1770, the island's old civilisation had been all but destroyed.

Peruvian kidnappers mounted labour raids, spiriting the islanders away to lives of indentured servitude in South America. Roman Catholic priests established a small mission on the island in 1866 and converted a few locals to Christianity. A tyrannical Frenchman named Jean-Baptiste Dutroux-Bornier ruled the island for a time, at first on behalf of an English-Tahitian trading company, later as an official agent of the French government. He was eventually killed by the islanders, who objected to his habit of abducting young girls for sex.

Finally, in 1888, the island was annexed by Chile and run as a nationalised sheep ranch, with the natives, by now walled inside one small town, providing a captive labour force. Nowadays the island trades mainly on its archaeological heritage, with a smattering of tourism. Its future is still uncertain, although it is debating the possibility of independence from Chile.

Mr Fischer tells this long and complicated tale clearly, precisely and sympathetically. By and large, he manages to resist the urge to glorify the islanders as “noble savages”—he is dismissive of the idea that, before the environmental collapse, the island had enjoyed “a thousand years of peace”, for example—yet his sympathy for them is obvious.

One important trick that any popular historian must master is that of achieving a balance between rigour and readability. Mr Fischer's writing style is somewhat inconsistent; a rather grandiloquent introduction sits oddly with the rest of the book, and the flow of his prose is occasionally interrupted by ugly, donnish jargon. But that is a minor quibble about what is otherwise a fascinating and highly readable history of one of the most exotic islands on earth.

Island at the End of the World: The Turbulent History of Easter Island.
By Steven Roger Fischer.

Reaktion Books; 284 pages; $24.95 and £14.99

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AIDS in South Africa

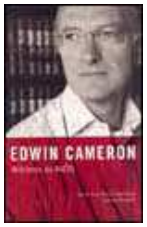
Taking a lead

Jul 21st 2005 | JOHANNESBURG
From The Economist print edition

AFRICANS have many names for AIDS. “Slim” and “the thinning disease” are blunt and descriptive. Some Batswana dub it the “radio disease” after years of public-health broadcasts there. Others who use life-prolonging anti-retroviral drugs (ARVs) talk of them as “airtime”, as if buying credit for a mobile phone. Some say “Henry the Fourth” or “Hello, I'm Victor” for HIV. Official discussion is rarely so forthright.

An estimated 6m South Africans are now infected, including many politicians. A few leaders, notably Nelson Mandela, have disclosed that a close relative died of AIDS. But who dares admit having the disease? Some two decades since the epidemic erupted, only one holder of a public office in South Africa has done so: a white, gay judge in the country's Supreme Court of Appeal.

Witness to AIDS
By Edwin Cameron



I.B. Tauris; 240 pages; £12.99

Buy it at
Amazon.co.uk

Edwin Cameron went public in 1999 for many reasons. It lent him authority when speaking of ARVs, the drugs that keep him alive and healthy. In “Witness to AIDS” he describes how, as the virus first took a grip, he was a living corpse on which white fungal spores grew. With careful treatment he felt glorious: “Life forces were coursing through my body.” Thanks to the pills, seven weeks after being too weak to climb a flight of stairs he strolled up Table Mountain.

Open about having AIDS, he lent support to an activist campaign for international drug firms to scrap patent protection and cut their prices in Africa. And he challenged South Africa's government over its feeble response. President Thabo Mbeki disbelieves the orthodox science of AIDS and leads official scepticism about ARVs. But Mr Cameron's account shows how well the science actually works. By being honest he also hopes to persuade South Africans that AIDS is a normal disease.

Despite the jocular names, many people still consider AIDS to be shameful. In 1998 Mr Cameron heard of a young woman who was stoned and stabbed to death shortly after saying, on the radio, she had HIV. Horrified, he resolved that the powerful and relatively rich, like himself, should speak out. Mr Cameron expected others to follow his example. “AIDS is above all a remediable adversity,” he concludes; it can be beaten and many saved if enough join a fight against it. Sadly, six years on, few elected officials will even be seen taking an HIV test, let alone going public with the result. More should dare. Mr Cameron found nothing but encouragement after announcing he had AIDS and Mr Mandela's revelation that his son had succumbed to the disease was met only with compassion.

Witness to AIDS.
By Edwin Cameron.
I.B. Tauris; 240 pages; $21.95 and £12.99

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New verse

Cleansing and toning

Jul 21st 2005
From The Economist print edition

What is poetry good for? The season's new work provides part of the answer

EMILY DICKINSON, a 19th-century poet, thought that poets, at their best, "rinsed the language". They made language anew by cleansing it of the accumulated crud of cliché, sloppiness and general woolliness.

Alice Oswald, a young English poet whose latest collection "Woods etc" (Faber and Faber, $23.27 and £12.99) has just been shortlisted for the Forward prize, is one such poet. In it, she writes about natural phenomena—stones, seeds, stars and what happens when you stand outside on an Easter night and look up at the sky—in a mood of muted ecstasy, which helps you see the world anew.

Ms Oswald's is a mystical work, and when she writes you can hear the long heritage of English verse behind her—of Ted Hughes, Gerard Manley Hopkins and Dylan Thomas. Her poems are written with the deceptive casualness of a notebook, but they also have a rhythmical tightness; they are propulsive, forward-pulsing, knitting one line to another. This poet is acutely alive in the world.

Like Ms Oswald, Charles Simic, a Serbian-American poet, has a singular vision of the world. But where Ms Oswald is serious, Mr Simic, in "My Noiseless Entourage" (Harcourt, $22), is waywardly humorous. His poems are small in scale and large in resonance. They engage with the terrible, slippery randomness of things—all those cold, yawning spaces between the stars which are made tolerable by a kind of baleful, ridiculous humour. In Ms Oswald's work, we feel that the world, though marvellously strange, is one, and that we are one with it. In Mr Simic's world, each one of us is lucky to be alive at all in such a lurching, madcap universe as this one:

> Lovers hold hands in never-opened novels.
> The page with a recipe for cucumber soup is missing.
> A dead man writes of his happy childhood on a farm,
> Of riding on a balloon over Lake Erie...

There are repeated hauntings and strange shadowings in Mr Simic's poems. No one quite knows why things are the way they are. We are being led by the nose—but by whom, and to what end? "The more innocent you believe you are, the harder it'll be for you," the narrator of "Calamity Crier" informs us with a kind of wickedly stony half-grin, half-grimace.

Charles Bukowski, who died in 1994, shares with Mr Simic a quality which is highly characteristic of American verse from Walt Whitman on—a casualness of address, some feeling that the person speaking to us is the not-so-perfect human being next door. Over a period of more than half a century, Bukowski, who was born in Germany and brought to America at the age of three, chronicled, in poems and novels, his life as a drifter and a drunk as he lurched through the mean streets of Los Angeles. The posthumous "Slouching Toward Nirvana" (Ecco, $27.50) is the author's own selection of some of the best of his early work.

Bukowski seems to write exactly as he spoke, with a kind of delightfully raw and untutored pugnaciousness. The subject matter is always his own hellishly lived life—wrestling with the hangover, the several-days-beard, the unwanted visitor. The past seems like a tragedy, and the future promises worse. What hope is there other than to chronicle it all in verse?

A new work by a Canadian poet, Anne Carson, who like Ms Oswald has won the T.S. Eliot prize, is a project which would have struck even Bukowski as baffling: a book about the suppression of the idea of individual identity. "Decreation: Poetry, Essays, Opera" (Knopf, $24.95) is one of the strangest and most interesting gatherings of material that any poet has published within living memory. It consists of poetry

(often the briefest of fragments), a selection of essays, including several about authors from classical antiquity, and even the libretto of an opera.

Ms Carson's tone is light, teasing and playful. In a voice of near childlike innocence, she asks extraordinarily difficult and searching questions about the nature of sleep and the idea of sacredness and the soul. She teases the reader intellectually rather in the way that Gertrude Stein used to tease, by a strange use of repetition, and by often using silliness as a route to the exploration of seriousness. She is quite unlike any other poet writing today.

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New fiction

Frogman

Jul 21st 2005
From The Economist print edition

TIM BINDING'S latest novel is a fictional re-creation of the life of Commander Lionel Crabb, a British naval diver who disappeared in the cold, swirling waters of Portsmouth Harbour in 1956.

Crabb vanished while spying on the *Ordkhonikidze*, a Soviet cruiser that had brought Nikita Khrushchev on a goodwill visit to Britain. The espionage mission, ordered by MI6 without the knowledge of Anthony Eden, the prime minister, should have been routine. Crabb was an experienced diver who had enjoyed an illustrious underwater career. Eden's fury about the mission, which could have damaged British/Soviet relations, led to a cover-up of Crabb's disappearance. A year later a headless, handless body in a frogman's suit was washed up. Despite the coroner's satisfaction that the body was Crabb's, neither his ex-wife nor his girlfriend could identify it. Speculation about what really happened continues.

Man Overboard
By Tim Binding

Picador; 245 pages; £12.99

Buy it at
Amazon.com
Amazon.co.uk

Basing his story around known facts, Mr Binding, who has written several acclaimed novels inspired by British history, has woven a thrilling and atmospheric fictional life for Crabb. Writing in the first person, as an old man reminiscing in a Czech sanatorium, he details Crabb's career, carefully re-creating the jaunty language and political paranoia of post-war Britain. He describes Crabb picking enemy limpet mines off the hulls of allied ships, dicing underwater with Italian agents in Gibraltar harbour, clearing unexploded bombs from ports and reluctantly falling in love in Venice. Mr Binding's master stroke, however, is to weave seamlessly into real events his imaginary and cataclysmic finale—how the British government betrayed a loyal subject and how Commander Lionel Crabb ultimately became the Russian Navy's Commander Lev Lvovich Korablov.

The book is all the more enjoyable because Crabb's character is so well fleshed out. The reader quickly gets under the skin of this idiosyncratic, humorous loner “with an irascible temper and flat English feet”—a man for whom duty was paramount and a standard life not an option: “I wanted something out of the ordinary, something that had no right to work, something ridiculous or downright dangerous.” Mr Binding invests his hero with a spiky and irreverent sense of humour and a memorable voice: “It can be a bit awkward, being introduced to the widow of a man you've recently consigned to the Almighty. It tends to stifle conversation.”

But it is Mr Binding's description of Crabb's work underwater—the only place where he feels truly at home—that is especially moving, in particular his yearning to be with the drowned men on a stricken submarine. “Suddenly I wanted to join them, to break in and embrace them. I didn't want the cottage and the bath running and Pat's perfume in every room. I wanted the cold and the dark, and these pale beckoning men.”

The official papers on Lionel Crabb's disappearance are not due to be released for another 52 years. But this stirring and funny novel, with its compelling exploration of Britishness, loyalty and personal sacrifice, makes an entirely credible substitute for the facts.

Man Overboard.
By Tim Binding.
Picador; 245 pages; £12.99

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Contemporary architecture

The hills are alive

Jul 21st 2005 | BERN
From The Economist print edition

Celebrating the life of Paul Klee

AFP

Paid for by hip replacements

THE three glass “hills” of Renzo Piano's impressive new art centre nestle so comfortably in the bucolic Alpine greenery outside Bern that they seem almost to be part of the landscape. Mr Piano has tied the building's undulating forms to a central spine to celebrate the multidisciplinary work of Paul Klee, the city's most famous artist, who died in 1940.

Klee struggled over whether he should become a painter or a violinist, and he played with amateur ensembles for most of his life. Fittingly, there is a concert hall in one of Mr Piano's hills and the centre has a resident ensemble. Another hill houses a massive archive, while the central hill presents a rotating display of Klee's art drawn from the centre's collection of over 4,000 works. On its lower level is a space for temporary exhibitions by Klee's contemporaries, such as Kandinsky's Blaue Reiter group and the Bauhaus.

“There was a functional reason to have three separate spaces,” Mr Piano explains. “We conceived the idea of three hills as a reference to the landscape, [and] also because the undulating forms create a softer relationship between the building and the ground, between the built and the unbuilt. Once the garden has grown, the steel framework will disappear into the earth.” Mr Piano's fascination with the interplay between the found and the built environment is also part of his plan for a California Academy of Science museum in San Francisco, due to be finished in 2008, in which the undulating earth roof will be planted with local species.

Mr Piano's best spaces contrast the outdoor and the indoor, and encourage viewers to look around themselves in new ways. This is particularly true of the Fondation Beyeler outside Basel, where one moment visitors come face to face with a Picasso, the next they gaze out at a Heidi-like vista of cows and meadows.

It is widely believed that the city of Bern hired Mr Piano because of the Beyeler's success. But the connection was more personal. The major funder of the Paul Klee Centre, Maurice Müller (a local orthopaedic surgeon who made his fortune by inventing hip prostheses) met the architect when he replaced a hip for one of Mr Piano's friends, Maurizio Pollini, a pianist. Since then, the three have become close. Dr Müller, who wanted to thank his home town for funding his studies, donated the land and SFr40m ($30.8m) on condition that Mr Piano design the centre. Mr Pollini played at its opening.

Klee had left Bern to study art in Munich—he was a German citizen—but returned to the Swiss capital

with his wife in 1933, after the Nazis fired him from Dusseldorf University and closed the Bauhaus, where he had been a founding teacher. They called his work “the art of a psychopath” and included it in the infamous “Degenerate Art” exhibition of 1937. Klee's son Felix stayed behind, fought in the German army and was a Soviet prisoner-of-war until the 1950s, when he returned to Bern and inherited the Klee estate. Felix founded the Paul Klee Foundation, and later his widow Livia offered to donate their own private collection, as well as the foundation's Klee holdings, to Bern if the city could find a fitting place to install them before 2006. That is when Dr Müller stepped in.

Much of Klee's work presents a child-like vision of the world, and the centre also houses an impressive museum of children's art. His own deceptively simple, almost naive pictures are the result of an ongoing quest for the abstraction and simplification of form and colour. His figures often look like line drawings or cartoons and are infused with a mystical love of colours and symbols like stars, trees, arrows and letters.

It may seem odd that a gallery devoted to an artist who once proclaimed that “colour possesses me” should include no colour; the walls are all either white or glass. But the design of the central exhibition space—a vast, luminous, vaulted hall with floating walls hanging from the ceiling—seems entirely aimed at focusing viewers' eyes on the paintings, which contain the only colour there. The design also seems to evoke Klee's playful spirit. There is no set order; instead it feels as though the walls are hanging in the same random pattern as in one of Klee's grid paintings. “A museum or gallery is a metaphysical space,” says Mr Piano. “A place of abstraction that takes art out of real time and makes it timeless. I love the idea that the walls don't touch the ground, that we can imagine they might be blown by the wind. The space is somehow out of this world.”

Like all new art spaces, the Klee Centre will take time to grow into its skin. But it is already, as Klee himself once called one of his watercolours, a monument in the fertile country.

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Economist.com PRINT EDITION OBITUARY
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Obituary

Edward Heath

Jul 21st 2005
From The Economist print edition

Reuters

Sir Edward Heath, a former British prime minister, died on July 17th, aged 89

THE tributes spoke of his integrity, his long service and the strength of his convictions. Many of his fellow Conservatives were especially keen to emphasise his love of music and sailing. Unspoken, at least for a few hours after his death, were the thoughts uppermost in many minds: his general grumpiness, his undisguised bitterness and in particular his loathing for “that woman”—in this context the person who replaced him as party leader, Margaret Thatcher. And, just as difficult for many of today's Tories to stomach, there was also his unqualified loyalty to Europe. This was the man who had taken Britain into what is now the European Union, and had never had the grace to apologise.

Although he resigned his seat in Parliament only in 2001, Sir Edward Heath already seems like a politician from another age. Awkward in public and ill at ease before the cameras, he had an off-putting voice and an off-putting appearance—all jowls and teeth and heaving shoulders. A bachelor, he was a million miles away from metrosexuality. At lunch or dinner he could make Calvin Coolidge seem like a chatterbox. And he disdained the tricks of the modern politician's trade. He had principles, stuck to them and made no effort to present himself as something he was not: he trimmed not, neither did he spin. How on earth did he become leader of the Conservative Party, let alone prime minister?

The answer is that in the 1960s he seemed a thoroughly modern sort of Tory. For a start, he was of lowly origins, humbler than those of any previous prime minister and certainly humbler than those of the grandees—most recently the Earl of Home—who had led the party before him. The son of a Kent carpenter and a former lady's maid, Teddy, as he was first called, went to grammar school and thence to Oxford, where he soon won an organ scholarship. He read politics, philosophy and economics and was elected president of the Union, the university debating society.

From Grocer Heath to grocer's daughter

Then followed a “good” war—he became a lieutenant-colonel—a spell in the civil service and a couple of other jobs before entering Parliament in 1950. His abilities were soon clear, and within ten years he was in the cabinet. When, in 1965, the party needed a leader to take on Labour's Harold Wilson, presented

as a thrusting technocrat, capable Ted Heath won in a three-cornered election. It was the Tories' first: all previous leaders had simply “emerged” through a haze of cigar smoke.

The Tories knew they were getting an ardent pro-European. Sir Edward's belief in European integration had been apparent since his maiden speech in the House of Commons. It had remained undiminished even by the French veto of Britain's application to join the European Economic Community (EEC) in 1963, for which he had been chief negotiator. Two other Heath qualities soon also became manifest. First, in 1968, Sir Edward showed his loyalty to the concept of “one-nation” Toryism by sacking Enoch Powell from the shadow cabinet after his infamous “rivers of blood” speech on immigration. Second, he showed the strength of his self-belief when he, almost alone, insisted the party would win the 1970 election, which it did.

In many ways his 3½-year prime ministership was a failure. Beset by IRA bombers, quadrupling oil prices and, most damagingly, striking miners, dockers and power workers, he made mistake after mistake: U-turns in economic policy, a bad industrial-relations bill, support for internment in Ulster, and so on. They culminated in a badly timed election, which the Tories just lost. But even this failure was not without honour: his reluctance to go to the country earlier had largely reflected his desire to avoid an election fought, as he saw it, along class-warfare lines. And in one respect his prime ministership was a triumph: thanks in large part to his personal diplomacy with France's President Georges Pompidou, he gained French acceptance for Britain's bid to join the EEC—and then won the vote in Parliament. It was a rare example in politics of clarity of purpose combining with mastery of detail, and resulted in a change that could aptly, and unusually, be called historic.

But after a second general election in 1974, the Tories had lost three out of the four elections he had taken them into. They wanted a change, and chose “that woman”, who went on to do much of what Sir Edward would have liked to have done, albeit in very different style. Certainly, his work was to some extent a precursor for hers. He, however, did nothing to conceal his contempt and she, when she won the 1979 election, made no effort to heal the rift, passing him over for the foreign secretaryship that he wanted and that precedent suggested. The Great Sulk was thus doomed to last the rest of his life.

Eurosceptical Tories have, perhaps rightly, put Mr Heath's belief in Europe down to his wartime experiences. His memories of 1930s unemployment may have done as much to form his views on industrial relations. This obstinate and often rude man was always honourable and usually sensitive. He was also a highly successful sailor—winner of the Sydney-to-Hobart yacht race in 1969—and an accomplished musician. In short, he was a man of parts—another way in which he differed so strikingly from politicians of today.

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Overview

Jul 21st 2005
From The Economist print edition

In **America**, inflation slowed even as economic activity quickened. Consumer-price inflation fell to 2.5% in the year to June. Meanwhile, industrial production grew by 3.9% over the same period, and the value of retail sales surged by 9.6%. But sales were boosted by generous promotions by carmakers, and industrial production was flattered by a spike in the output of utilities.

America continued to attract large sums of **foreign capital**. Net foreign purchases of notes, bonds and equities from American residents amounted to $60 billion in May.

In the **euro area**, consumer prices rose by 2.1% in the year to June, moving back above the ECB's ceiling of 2.0%. But core inflation, which excludes energy, food, alcohol and tobacco prices, fell to 1.4%.

Industrial production in the **euro area** fell by 0.3% in May. It is now only 0.1% higher than a year ago. But a weaker euro and better export orders have lifted **Germany's** spirits. The ZEW index of economic sentiment jumped from a reading of 19.5 in June to one of 37.0 in July, above its historical average of 34.2.

In **Japan**, 794 businesses went bankrupt in June, 29.3% more than the month before.

Four of the nine members of the **Bank of England's** rate-setting committee voted to cut interest rates at their July meeting, according to minutes released on July 20th.

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Output, demand and jobs

Jul 21st 2005
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	latest	qtr*	2005	2006	latest	latest	latest	year ago
Australia	+ 1.9 Q1	+ 2.8	+ 2.4	+ 3.1	+ 1.2 Q1	+ 1.8 Q1	5.0 Jun	5.6
Austria	+ 2.0 Q1	+ 0.8	+ 1.9	+ 2.0	+ 3.2 Apr	– 2.4 Apr	4.6 Jun	4.2
Belgium	+ 1.8 Q1	– 0.1	+ 1.2	+ 1.9	+ 1.1 May	+ 3.4 Apr	12.2 May†	12.3
Britain	+ 2.1 Q1	+ 1.5	+ 2.2	+ 2.2	– 1.9 May	+ 1.7 Jun	4.8 May††	4.8
Canada	+ 3.3 Q1	+ 2.3	+ 2.8	+ 3.0	+ 1.7 Apr	+ 6.4 Apr	6.7 Jun	7.2
Denmark	+ 0.8 Q1	+ 0.6	+ 2.1	+ 2.2	+ 2.0 May	+ 8.7 May	5.9 May	6.5
France	+ 1.8 Q1	+ 1.4	+ 1.5	+ 1.9	– 0.2 May	+ 1.5 May	10.2 May	10.0
Germany	+ 1.1 Q1	+ 4.2	+ 1.1	+ 1.3	+ 0.8 May	+ 2.7 May	11.7 Jun§	10.5
Italy	– 0.2 Q1	– 1.8	– 0.2	+ 1.1	– 2.1 May	– 4.6 Apr	7.8 Mar	8.2
Japan	+ 1.3 Q1	+ 4.9	+ 1.6	+ 1.8	+ 0.3 May	+ 3.6 Apr	4.4 May	4.6
Netherlands	– 0.5 Q1	– 3.2	+ 0.5	+ 1.5	– 1.0 May	– 2.8 Apr	6.7 Jun**	6.4
Spain	+ 3.3 Q1	+ 3.5	+ 3.1	+ 2.8	+ 0.5 May	+ 2.2 May	9.9 May	11.1
Sweden	+ 1.4 Q1	+ 1.1	+ 1.9	+ 2.6	– 0.9 May	+ 4.8 May	5.2 May†	5.7
Switzerland	+ 0.8 Q1	+ 0.2	+ 0.9	+ 1.5	– 0.3 Q1	– 0.4 May	3.6 Jun†	3.7
United States	+ 3.7 Q1	+ 3.8	+ 3.5	+ 3.2	+ 3.9 Jun	+ 4.3 May	5.0 Jun	5.6
Euro area	+ 1.4 Q1	+ 1.9	+ 1.3	+ 1.7	+ 0.1 May	+ 2.0 May	8.8 May	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 2.0 Q1	+ 0.5	na	na	– 7.5 May	+ 6.3 May	10.2 May†	11.6
Greece	+ 3.5 Q1	na	na	na	– 2.3 May	+ 3.5 Apr	10.2 Dec	9.8
Iceland	+ 2.9 Q1	na	na	na	na	na	2.2 May†	3.3
Ireland	+ 2.8 Q4	na	na	na	– 3.4 May	+ 4.6 May	4.2 Jun	4.4
Luxembourg	+ 3.1 Q1	na	na	na	+ 4.6 Apr	– 3.5 May	4.5 May	3.9
New Zealand	+ 1.9 Q1	+ 1.5	na	na	+ 3.5 Q4	+ 5.8 Q1	3.9 Q1	4.2
Norway	– 0.8 Q1	+ 2.2	na	na	+ 0.1 May	+ 7.2 May	4.6 May**	4.3
Portugal	+ 0.1 Q1	+ 0.8	na	na	– 4.7 May	+ 2.5 May	7.5 Q1†	6.4

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Mar-May; claimant count rate 2.8% in Jun. §EU harmonised rate 9.3% in May. **Apr-Jun.

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Prices and wages

Jul 21st 2005
From The Economist print edition

% change on year ago

	Consumer prices		The Economist poll consumer prices forecast		Producer prices		Wages/earnings	
	latest	year ago	2005	2006	latest	year ago	latest	year ago
Australia	+ 2.4 Q1	+ 2.0	+ 2.7	+ 2.6	+ 6.0 Q1	– 1.1	+ 4.5 Q1	+ 5.0
Austria	+ 2.3 Jun	+ 2.3	+ 2.1	+ 1.7	+ 0.7 Jun	+ 5.9	+ 2.2 Jun	+ 2.2
Belgium	+ 2.9 Jun	+ 2.3	+ 2.1	+ 1.7	+ 2.4 May	+ 3.9	+ 2.6 Apr	+ 2.3
Britain	+ 2.0 Jun*	+ 1.6	+ 1.9	+ 1.9	+ 2.4 Jun	+ 2.6	+ 4.1 May†	+ 4.6
Canada	+ 1.6 May	+ 2.5	+ 2.1	+ 2.2	– 0.3 May	+ 6.4	+ 3.1 Apr	+ 3.3
Denmark	+ 1.8 Jun	+ 1.1	+ 1.4	+ 1.7	+ 3.9 Jun	+ 2.4	+ 3.1 Q1	+ 3.3
France	+ 1.7 Jun	+ 2.4	+ 1.7	+ 1.6	+ 2.4 May	+ 2.2	+ 2.9 Q1	+ 2.8
Germany	+ 1.8 Jun	+ 1.7	+ 1.4	+ 1.1	+ 2.2 Jun	+ 3.5	+ 0.6 May	+ 1.9
Italy	+ 1.8 Jun	+ 2.4	+ 2.0	+ 1.9	+ 3.1 May	+ 2.9	+ 3.1 May	+ 3.3
Japan	+ 0.2 May	– 0.5	– 0.1	+ 0.2	+ 1.4 Jun	+ 1.5	– 0.2 May	+ 2.2
Netherlands	+ 1.6 Jun	+ 1.4	+ 1.4	na	+ 3.3 May	+ 4.2	+ 0.6 Jun	+ 1.4
Spain	+ 3.1 Jun	+ 3.5	+ 3.0	+ 2.7	+ 4.2 May	+ 3.8	+ 3.0 Q1	+ 3.2
Sweden	+ 0.6 Jun	+ 0.5	+ 0.5	+ 1.4	+ 2.4 May	+ 1.2	+ 1.3 Apr	+ 2.9
Switzerland	+ 0.7 Jun	+ 1.1	+ 1.1	+ 1.1	+ 0.5 Jun	+ 1.5	+ 0.9 2004	+ 1.4
United States	+ 2.5 Jun	+ 3.3	+ 2.9	+ 2.5	+ 3.6 Jun	+ 4.3	+ 2.7 Jun	+ 2.0
Euro area	+ 2.1 Jun	+ 2.4	+ 1.9	+ 1.5	+ 3.5 May	+ 2.4	+ 3.1 Q1	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 1.1 Jun	– 0.1	na	na	+ 4.0 Jun	+ 1.0	+ 4.1 Q1	+ 4.2
Greece	+ 3.3 Jun	+ 2.8	na	na	+ 3.0 May	+ 6.0	na	na
Iceland	+ 3.5 Jul	+ 3.6	na	na	+ 3.7 Jul	+ 5.3	+ 6.6 May	+ 4.6
Ireland	+ 2.1 Jun	+ 2.3	na	na	– 2.2 May	– 0.1	+ 6.4 Q1	+ 3.9
Luxembourg	+ 2.2 Jun	+ 2.6	na	na	+ 6.7 May	+ 7.7	+ 1.8 Mar	+ 2.1
New Zealand	+ 2.8 Q2	+ 2.4	na	na	+ 4.2 Q1	– 0.6	+ 2.5 Q1	+ 2.2
Norway	+ 1.7 Jun	+ 1.3	na	na	+19.3 Jun	+12.0	+ 3.7 Q1	+ 3.5
Portugal	+ 1.6 Jun	+ 2.7	na	na	+ 3.9 May	+ 1.9	– 3.0 May	+ 0.8

*New series. RPI inflation rate 2.9% in Jun. †Mar-May.

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Portfolio poll

Jul 21st 2005
From The Economist print edition

Portfolio poll

2nd quarter 2005

	Holdings by instrument, %			Equity holdings by area, %						
	Equities	Bonds	Cash	United States	Other Americas	Britain	Euro area	Other Europe	Japan	Other Asia
Credit Suisse PB	41 ▲	26 ▼	33† ▼	73 ▲	0	0	16 ▼	2 ▲	9 ▼	0 ▼
Henderson	62 ▼	38 ▲	0	55 ▼	2	6 ▲	20 ▲	5 ▲	10 ▼	2 ▲
IPM-First Quadrant	59 ▲	41 ▼	0 ▼	55 ▼	3 ▼	6 ▲	15 ▲	2 ▼	15 ▼	4 ▼
Julius Baer PB	48	37	15‡	46	5	8	15	6	11	9
Robeco Group	50 ▼	45	5 ▲	48 ▼	3 ▲	12 ▲	17 ▲	5 ▲	9 ▼	6 ▲
Average	52 ▼	37 ▼	11 ▲	56 ▲	3 ▲	7 ▼	16 ▼	4 ▲	11 ▼	4 ▼
Neutral*				53 ▲	3 ▲	11 ▼	15 ▼	5 ▼	10 ▼	4 ▲

	Bond holdings by currency, %				
	Dollar	Yen	Sterling	Euro area	Others
Credit Suisse PB	84 ▼	4 ▲	0	11 ▼	1 ▲
Henderson	20 ▼	30	10 ▲	40	0
IPM-First Quadrant	29 ▲	41 ▼	0 ▼	23 ▼	7 ▲
Julius Baer PB	88	0	0	7	5
Robeco Group	18 ▼	0 ▼	18 ▲	63 ▲	2 ▼
Average	48 ▲	15 ▼	6 ▲	29 ▲	3 ▼
Neutral*	20 ▲	30 ▲	5 ▲	39 ▼	6 ▼

▼▲ A change of 5% points or more on previous quarter
▼▲ A change of less than 5% points on previous quarter

*Morgan Stanley Capital International (developed) world equity index; Citigroup world government-bond index
†Of which 20% invested in alternative investments
‡Of which 11% invested in alternative investments
Totals may not add up to 100% due to rounding

The money managers in our quarterly poll made a number of shifts among asset classes in the second quarter, although most involved only modest tinkering. Credit Suisse was an exception: it reduced its allocation to cash, and increased its exposure to equities, both by more than five percentage points. Within the equity class, the bank was also the only one surveyed that greatly increased its exposure to America; three other institutions reported small cuts in their American equity holdings. Larger reductions were reported by Credit Suisse in Asia (outside Japan), and Henderson in Japan. Outside equities, portfolio strategies were also mixed. Robeco Group reduced its exposure to yen-denominated bonds and increased its holdings of sterling and euro bonds by over five percentage points each. Henderson made a big cut in its dollar-bond holdings and increased its exposure to sterling.

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Money and interest rates

Jul 21st 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Jul 20th 2005)					
				3-mth money market		2-year gov't bonds	10-year gov't bonds		corporate bonds
	narrow	broad		latest	year ago		latest	year ago	
Australia	+ 5.4	+ 9.2	May	5.64	5.44	5.19	5.23	5.75	6.26
Britain	+ 3.7	+11.0	Jun	4.58	4.78	4.10	4.34	5.12	5.19
Canada	+10.3	+ 9.8	May	2.55	2.05	3.05	3.97	4.83	5.30
Denmark	+16.2	+ 9.0	May	2.20	2.25	2.17	3.25	4.38	4.93
Japan	+ 4.4	+ 1.7	Jun	0.02	0.03	0.08	1.27	1.77	1.36
Sweden	+ 2.5	+ 4.7	May	1.45	1.98	1.87	3.10	4.54	2.74
Switzerland	– 2.5	+ 4.7	Jun	0.75	0.51	0.94	1.98	2.84	1.93
United States	+ 2.1	+ 4.8	Jun	3.49	1.53	3.87	4.16	4.48	5.13
Euro area†	+10.1	+ 7.3	May	2.12	2.12	2.19	3.27	4.24	3.47

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.39%, Japan No. 271 1.27%. Central bank rates: US fed funds 3.25%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jul 21st 2005
From The Economist print edition

2000=100

	Jul 12th	Jul 19th*	% change on one month	% change on one year
Dollar index				
All items	135.4	134.3	– 2.2	+ 4.2
Food	129.7	128.9	– 3.5	+ 2.3
Industrials				
All	142.9	141.3	– 0.5	+ 6.5
Nfa†	136.4	135.4	+ 3.2	+ 1.1
Metals	146.4	144.5	– 2.3	+ 9.4
Sterling index				
All items	115.8	117.2	+ 2.9	+11.1
Euro index				
All items	102.7	103.6	– 1.0	+ 7.5
Yen index				
All items	139.4	140.8	+ 2.0	+ 8.6
Gold				
$ per oz	426.65	426.65	– 2.4	+ 6.7
West Texas Intermediate				
$ per barrel	60.53	57.45	– 2.1	+42.2

* Provisional. † Non-food agriculturals.

Our commodity-price index was rebased in February 2005.

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Stockmarkets

Jul 21st 2005
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Market indices

	Jul 20th	2005 high	2005 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,263.3	4,267.3	3,905.5	+ 0.5	– 0.1	+ 5.2	+ 1.1
Austria (ATX)	3,071.8	3,099.5	2,415.0	+ 0.1	– 0.9	+26.3	+11.7
Belgium (Bel 20)	3,185.4	3,197.3	2,958.8	+ 1.5	–13.5	+ 8.6	– 4.0
Britain (FTSE 100)	5,215.2	5,259.7	4,783.6	– 0.6	–24.7	+ 8.3	– 2.4
Canada (Toronto Composite)	10,263.2	10,329.6	9,006.2	+ 0.6	– 9.9	+11.0	+ 8.8
Denmark (KBX)	313.8	317.0	257.8	– 0.7	– 1.0	+21.7	+ 7.2
France (SBF 250)	3,065.5	3,070.1	2,633.6	+ 1.5	–30.2	+16.4	+ 2.9
(CAC 40)	4,418.4	4,424.3	3,816.1	+ 1.7	–36.2	+15.6	+ 2.2
Germany (DAX)*	4,784.5	4,784.5	4,178.1	+ 2.2	–40.7	+12.4	– 0.6
Italy (S&P/MIB)	33,465.0	33,601.0	30,645.0	+ 1.0	–33.2	+ 8.3	– 4.3
Japan (Nikkei 225)	11,789.4	11,966.7	10,825.4	+ 1.1	–69.7	+ 2.6	– 7.5
(Topix)	1,196.3	1,203.3	1,109.2	+ 0.9	–58.5	+ 4.1	– 6.2
Netherlands (AEX)	395.6	397.0	347.0	+ 0.9	–43.6	+13.6	+ 0.4
Spain (Madrid SE)	1,082.0	1,086.0	950.9	+ 0.5	– 5.6	+12.8	– 0.3
Sweden (Affarsvarlden Gen)	255.6	256.9	218.9	– 0.3	–36.1	+15.6	– 2.4
Switzerland (Swiss Market)	6,510.7	6,510.7	5,669.6	+ 1.8	–22.6	+14.4	nil
United States (DJIA)	10,646.6	10,940.6	10,012.4	+ 0.8	– 9.2	– 1.3	– 1.3
(S&P 500)	1,229.4	1,235.2	1,137.5	+ 0.5	–19.5	+ 1.4	+ 1.4
(NASDAQ Comp)	2,173.2	2,188.6	1,904.2	+ 1.4	–57.0	– 0.1	– 0.1
Europe (FTSEurofirst 300)†	1,163.0	1,165.9	1,038.6	+ 0.3	–31.8	+11.6	– 1.3
Euro area (FTSE Euro 100)†	1,003.6	1,006.3	894.4	+ 1.3	–35.3	+11.4	– 1.6
World (MSCI)‡	1,172.4	1,193.0	1,115.0	+ 0.1	–19.1	+ 0.3	+ 0.3
World bond market (Citigroup)††	627.7	662.3	626.9	– 0.7	– 5.2	– 5.8	– 5.8

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jul 21st 2005
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	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2005	2006	Exchange rate trade-weighted† 2000=100 Jul 20th	year ago	Currency units per $ Jul 20th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2005‡
Australia	− 18.1	May	− 42.4	Q1	− 5.8	− 5.5	118.5	110.4	1.33	1.40	2.29	1.59	1.17	+ 0.9
Austria	+ 0.1	Apr	+ 0.5	May	− 0.4	− 0.4	104.5§	103.9	0.83	0.82	1.44	–	0.73	− 2.0
Belgium	+ 16.5	May	+ 8.6	Apr	+ 3.0	+ 3.0	105.2§	104.3	0.83	0.82	1.44	–	0.73	− 0.5
Britain	−111.9	May	− 44.0	Q1	− 2.4	− 2.5	97.1	102.2	0.58	0.54	–	0.69	0.51	− 2.9
Canada	+ 47.5	May	+ 20.2	Q1	+ 1.3	+ 1.1	118.7	108.9	1.22	1.33	2.11	1.47	1.07	+ 1.2
Denmark	+ 9.2	May	+ 11.0	May	+ 2.0	+ 1.9	106.1	106.0	6.21	6.08	10.7	7.46	5.46	+ 1.8
France	− 26.0	May	− 21.7	May	− 0.6	− 0.3	107.8§	106.8	0.83	0.82	1.44	–	0.73	− 3.0
Germany	+195.8	May	+105.7	May	+ 3.5	+ 3.3	105.7§	104.5	0.83	0.82	1.44	–	0.73	− 3.5
Italy	− 6.8	May	− 21.5	May	− 1.2	− 1.3	77.2§	76.5	0.83	0.82	1.44	–	0.73	− 4.4
Japan	+115.9	May	+167.8	May	+ 3.6	+ 3.5	84.8	87.0	114	110	197	137	–	− 6.1
Netherlands	+ 40.7	May	+ 33.9	Q1	+ 3.7	+ 3.6	104.6§	103.7	0.83	0.82	1.44	–	0.73	− 2.2
Spain	− 85.7	Apr	− 69.9	Apr	− 5.2	− 5.3	77.6§	77.2	0.83	0.82	1.44	–	0.73	+ 0.5
Sweden	+ 22.8	May	+ 29.7	Q1	+ 7.0	+ 6.4	95.0	98.0	7.87	7.51	13.6	9.45	6.92	+ 0.8
Switzerland	+ 7.3	Jun	+ 40.2	Q1	+11.4	+10.8	105.8	107.4	1.30	1.26	2.25	1.56	1.14	− 1.0
United States	−717.9	May	−717.0	Q1	− 6.3	− 6.2	87.2	87.1	–	–	1.73	1.20	0.88	− 4.1
Euro area	+ 63.5	May	+ 27.9	Apr	+ 0.5	+ 0.4	116.4	115.1	0.83	0.82	1.44	–	0.73	− 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 12.8	May	+ 6.5	May	na	na	82.1§	81.4	0.83	0.82	1.44	–	0.73	+ 1.3
Greece	− 33.5	Apr	− 15.7	May	na	na	60.2§	59.8	0.83	0.82	1.44	–	0.73	− 3.8
Iceland	− 0.8	May	− 1.4	Q1	na	na	109.0**	96.5	65.3	71.5	113	78.5	57.4	+ 1.1
Ireland	+ 40.9	May	− 3.1	Q1	na	na	95.3§	93.8	0.83	0.82	1.44	–	0.73	− 0.7
Luxembourg	− 4.3	Apr	+ 3.0	Q1	na	na	105.2§	104.3	0.83	0.82	1.44	–	0.73	− 0.8
New Zealand	− 3.4	May	− 7.0	Q1	na	na	133.9	125.8	1.49	1.57	2.58	1.79	1.31	+ 3.2
Norway	+ 40.4	Jun	+ 37.9	Q1	na	na	110.1	102.3	6.63	6.94	11.5	7.96	5.83	+ 14.4
Portugal	− 20.1	Apr	− 14.4	Apr	na	na	94.5**	93.6	0.83	0.82	1.44	–	0.73	− 5.3

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, May average. ‡OECD forecast. ††New series.
**IMF, March average.

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Exchange rates against the dollar

Jul 21st 2005
From The Economist print edition

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Overview

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China's GDP grew by 9.5% in the year to the second quarter, faster than most economists had expected, and industrial production expanded by 16.8% in the year to June. Inflation even eased a little, falling to 1.6% in the year to June.

Industrial production in **Peru** accelerated, growing by 9.1% in the year to May. It also quickened sharply in **Russia**, growing by 6.9% in the year to June.

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Hungary

Jul 21st 2005
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According to the OECD's latest survey, Hungary's economy is catching up with its richer neighbours. It hopes to join the euro in 2010. But this progress is threatened by an “unhealthy climate of financial volatility”. Fiscal profligacy is partly to blame. The government's deficit has overshot its target in each of the past three years, and will do so again this year and next, the OECD predicts.

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Economy

Jul 21st 2005
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.5	Q2	+16.8	Jun	+ 1.6	Jun	+79.2	Jun	+68.7	2004	711.0	Jun
Hong Kong	+ 6.0	Q1	– 0.6	Q1	+ 0.8	May	–10.3	May	+18.5	Q1	122.0	Jun
India	+ 7.0	Q1	+10.8	May	+ 3.7	May	–32.4	Jun	– 6.4	Q1	127.0	Jun
Indonesia	+ 6.4	Q1	+10.1	Mar	+ 7.4	Jun	+27.6	May	+ 7.8	Q1	33.3	May
Malaysia	+ 5.7	Q1	– 0.4	May	+ 3.2	Jun	+23.2	May	+16.7	Q1	74.1	May
Philippines	+ 4.6	Q1	+ 2.5	Apr	+ 7.6	Jun	nil	Apr	+ 2.9	Mar	15.1	Jun
Singapore	+ 3.9	Q2	+ 1.7	May	nil	May	+16.3	Jun	+29.2	Q1	115.2	Jun
South Korea	+ 2.7	Q1	+ 4.3	May	+ 2.7	Jun	+27.0	Jun	+23.0	May	204.1	Jun
Taiwan	+ 2.5	Q1	– 1.4	May	+ 2.4	Jun	+ 2.7	Jun	+16.9	Q1	253.6	Jun
Thailand	+ 3.3	Q1	+ 8.0	May	+ 3.8	Jun	– 4.4	May	+ 0.1	May	47.1	May
Argentina	+ 8.0	Q1	+ 2.0	Jun	+ 9.0	Jun	+11.2	May	+ 2.8	Q1	21.4	May
Brazil	+ 2.9	Q1	+ 5.5	May	+ 7.3	Jun	+38.3	Jun	+13.4	May	60.7	May
Chile	+ 5.7	Q1	+ 6.8	May	+ 2.7	Jun	+ 9.0	Jun	+ 1.1	Q1	16.6	Jun
Colombia	+ 3.6	Q1	+ 4.5	Apr	+ 4.8	Jun	+ 1.5	Apr	– 0.8	Q1	12.5	Jun
Mexico	+ 2.4	Q1	+ 3.0	May	+ 4.3	Jun	– 9.9	May	– 8.7	Q1	61.9	May
Peru	+ 7.1	May	+ 9.1	May	+ 1.5	Jun	+ 3.5	May	+ 0.4	Q1	13.0	Jun
Venezuela	+ 7.9	Q1	+28.2	Apr	+15.9	Jun	+22.6	Q1	+14.9	Q1	22.3	May
Egypt	+ 4.7	Q4	+ 3.3	2004†	+ 4.7	Apr	– 9.5	Q1	+ 4.4	Q1	18.2	May
Israel	+ 4.1	Q1	+12.8	Apr	+ 0.3	Jun	– 7.6	Jun	+ 1.9	Q1	26.5	Jun
South Africa	+ 4.2	Q1	+ 1.2	May	+ 3.3	May	– 2.7	May	– 8.5	Q1	16.9	Jun
Czech Republic	+ 4.4	Q1	+ 4.0	May	+ 1.8	Jun	+ 0.7	May	– 4.4	Q1	30.1	Jun
Hungary	+ 2.9	Q1	+10.1	May	+ 3.8	Jun	– 2.7	Q1	– 9.2	Q1	17.1	Jun
Poland	+ 2.1	Q1	+ 0.9	May	+ 1.4	Jun	– 3.6	May	– 1.1	May	39.3	May
Russia	+ 5.2	Q1	+ 6.9	Jun	+13.3	Jun	+105.5	May	+69.3	Q1	147.8	Jun
Turkey	+ 4.8	Q1	+ 2.1	May	+ 9.0	Jun	–37.4	May	–18.2	May	35.8	May
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 7.2	Q1	+ 8.4	May	+ 3.1	Jun	– 2.4	Apr	– 1.3	Apr	1.7	May
Latvia	+ 7.4	Q1	+ 9.9	May	+ 6.3	Jun	– 3.0	Apr	– 1.6	May	2.0	May
Lithuania	+ 5.6	Q1	na		+ 2.0	Jun	– 3.1	May	– 1.5	Q1	3.5	May
Slovakia	+ 5.1	Q1	+ 1.5	May	+ 2.5	Jun	– 2.1	May	– 1.9	Mar	15.7	May
Slovenia	+ 2.6	Q1	+ 1.3	May	+ 1.9	Jun	– 1.3	May	nil	May	8.4	Apr
Pakistan	+ 6.4	2004†	+ 9.6	Jan	+ 8.7	Jun	– 6.2	Jun	– 1.5	Q1	10.4	May
Saudi Arabia	+ 5.2	2004	na		+ 0.6	Mar	+84.9	2004	+51.5	2004	26.7	May

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

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	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jul 20th		Dec 31st 2004	
	Jul 20th	year ago	Jul 20th	% a year		one week	in local currency	in $ terms
China	8.28	8.28	14.3	4.08	1,074.0	– 1.5	– 19.3	– 19.3
Hong Kong	7.78	7.80	13.5	3.43	14,602.7	+ 2.1	+ 2.6	+ 2.5
India	43.5	45.9	75.2	5.47	7,342.9	+ 1.3	+ 11.2	+ 11.1
Indonesia	9,853	8,960	17,041	8.83	1,140.7	+ 0.7	+ 14.0	+ 7.4
Malaysia	3.80	3.80	6.57	2.88	924.0	+ 1.2	+ 1.8	+ 1.8
Philippines	55.9	55.9	96.6	6.88	1,944.7	+ 4.9	+ 6.7	+ 7.2
Singapore	1.69	1.70	2.93	2.00	2,309.3	+ 3.1	+ 11.8	+ 7.9
South Korea	1,043	1,153	1,803	3.50	1,074.4	+ 2.3	+ 19.9	+ 19.1
Taiwan	31.9	33.7	55.2	1.45	6,423.8	+ 0.7	+ 4.6	+ 3.9
Thailand	42.1	40.8	72.9	3.00	650.0	– 1.3	– 2.7	– 10.3
Argentina	2.86	2.95	4.94	7.00	1,487.8	+ 4.5	+ 8.2	+ 12.5
Brazil	2.36	3.02	4.08	19.72	25,704.0	– 0.6	– 1.9	+ 10.5
Chile	574	631	992	3.84	9,717.6	+ 1.9	+ 8.4	+ 5.0
Colombia	2,315	2,662	4,003	7.05	5,919.7	+ 3.2	+ 36.2	+ 38.5
Mexico	10.6	11.5	18.4	9.60	14,306.1	+ 2.1	+ 10.7	+ 15.9
Peru	3.25	3.44	5.63	3.01	4,158.3	+ 0.9	+ 12.1	+ 13.0
Venezuela	2,587§	2,602§	4,474	11.51	21,309.1	+ 0.2	– 28.9	– 29.1
Egypt	5.77	6.21	9.99	8.97	43,542.9	+ 1.7	+ 77.1	+ 86.2
Israel	4.57	4.50	7.91	3.59	688.1	+ 2.2	+ 6.9	+ 0.9
South Africa	6.70	6.05	11.6	7.10	14,878.2	+ 1.4	+ 17.6	– 1.2
Czech Republic	25.1	25.4	43.5	1.78	1,241.0	+ 0.3	+ 20.3	+ 6.8
Hungary	205	201	354	6.58	19,975.0	+ 1.0	+ 35.5	+ 19.7
Poland	3.44	3.59	5.95	4.65	29,501.5	+ 0.1	+ 10.8	– 3.5
Russia	28.7	29.1	49.6	13.00	757.8‡	nil	+ 27.6	+ 23.4
Turkey	1.34	1.43	2.31	16.47	28,713.5	+ 2.3	+ 15.0	+ 16.1
EM (MSCI)*	1.00	1.00	1.73	na	589.2	+ 1.0	+ 8.7	+ 8.7
EMBI+†	1.00	1.00	1.73	na	347.1	– 0.1	+ 5.3	+ 5.3

*Emerging Mkts. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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